

*moving forward*

1996

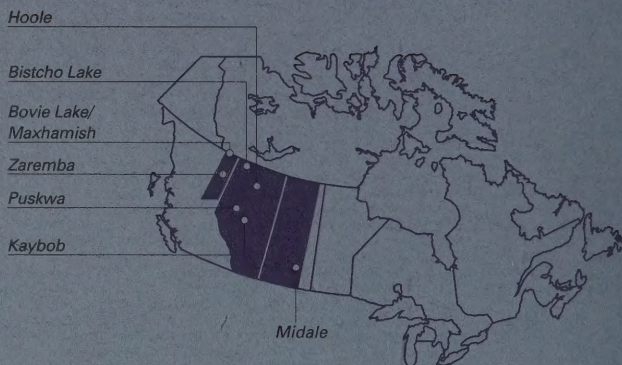
paramount

*making progress*



### *Company Profile*

Paramount Resources Ltd. is a natural gas producer with 85 per cent of its revenue derived from natural gas sales. The Company explores for, develops, transports and markets natural gas. Paramount's assets are primarily concentrated in the shallow gas trends of northeastern Alberta, although significant progress has been made to diversify into new core areas in Midale, Saskatchewan, Puskwaskau, Alberta, Bistcho Lake, Alberta, Lapp/Zaremba, British Columbia, and Liard, Northwest Territories. Since its founding in 1978 the Company has concentrated on acquiring land, evaluating reserves, drilling for, producing and marketing high deliverability shallow gas.



# p a r a m o u n t

*Paramount has continued to maintain and develop its traditional shallow gas areas while successfully branching out into new crude oil and natural gas exploration projects across western Canada. The goal of the Company to diversify its asset base was continued successfully in 1996.*

|   |                                         |    |                                               |    |                                            |
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*moving forward*

# **1997 Forecast**

Natural gas sales

150 - 160 MMcf/d

Crude oil and liquids sales

2400 - 2600 Bbl/d

Cash Flow

\$70 - \$80 million,

\$4.25 - \$5.00/share

## **First Quarter Drilling Results**

73 gross (44.7 net) gas wells

5 gross (1.1 net) oil wells

3 gross (2.5 net) dry

and abandoned wells

96 per cent success rate

## **1997 Exploration/Development**

Sousa - 1 cased gas well

Puskwaskau - 1 cased well,

1 well currently drilling

Bowie Lake - 1 cased

potential gas well

Maxhamish - 1 well

currently drilling

Corner expansion

Add 10 MMcf/d

Kettle River expansion

Add 10 MMcf/d

South Leismer expansion

Add 6 MMcf/d

Clyde Lake gas plant

6 MMcf/d gross/

3 MMcf/d net

Hoole gas plant

40 MMcf/d gross/

15 MMcf/d net

Bistcho Lake sour gas plant

40 MMcf/d gross/

14 MMcf/d net

Lapp/Zaremba production

Add 4 MMcf/d

*making progress*

## **1996 Highlights**

(\$ millions except per share)

1996

1995

### **Financial**

Revenue (before royalty)

\$ 100.644

\$ 69.887

Net earnings

25.462

5.622

Per share

1.59

0.35

Cash flow from operations

63.107

35.313

Per share

3.95

2.22

Capital expenditures<sup>(1)</sup> (net)

63.127

47.618

Assets

306.463

245.342

Long-term operating bank debt

63.046

86.111

Shareholders' equity

120.734

88.427

<sup>(1)</sup> Property and equipment acquisition plus geological and geophysical costs, less proceeds from sales.

### **Operating**

Sales (Gross before royalty)

Natural gas

Bcf

46.4

49.3

MMcf/d

127

135

Average price

\$/Mcf

1.84

1.30

Oil and Liquids

Bbbls

553,605

294,650

Bbbls/d

1,517

807

Average price

\$/Bbl

27.91

20.66

Operated plants

12

15

Net capacity

MMcf/d

135

142

Gross capacity

MMcf/d

217

231

Utilization

82%

88%

### **Exploration and Development**

Drilling

Gross wells

107

116

Success rate

91%

93%

Reserves (Gross before royalty)

Natural gas (Bcf)

476.4

448.3

Crude oil and Liquids (thousands of barrels)

10,662

6,585

Land

Net (thousands acres)

1,464

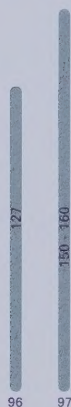
1,469



## President's Message to the Shareholders

Paramount exits 1996 boasting record revenue of over \$100 million, cash flow of \$63.1 million and earnings of \$25.5 million. These results reflect 44 per cent, 78 per cent and 354 per cent increases, respectively, over 1995 levels. These improvements are due to the strong commodity prices realized by the Company in 1996 and are expected to continue through 1997. Average natural gas price received by Paramount in 1996 was \$1.84/Mcf as compared with \$1.30/Mcf in 1995. Average crude oil price received was \$27.91/Bbl in 1996 as compared with \$20.66/Bbl in 1995. Paramount proven and probable reserves grew in 1996 with Paramount replacing production of 52 Bcfeq by 233 per cent at an estimated \$0.49/Mcfeq. Further growth is expected with increased production volumes of both natural gas and crude oil, which are expected to average 155 MMcf/d and 2,500 Bbl/d respectively, pushing Paramount to forecast new records in financial and operational performance in 1997.

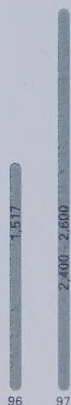
Natural Gas  
Production  
MMcf/d



While maintaining its traditional core areas in northeastern Alberta, Kaybob, northwestern Alberta, and Cameron Hills, Northwest Territories, Paramount has successfully branched out into new crude oil and gas exploration projects across Western Canada. New core areas have been successfully established at Midale, Saskatchewan, Puskwaskau in the Peace River arch area of northwest Alberta, Lapp/Zarembo in British Columbia, and the Liard Basin in the Northwest Territories.

The major successes through 1996 include the follow-up development of the Ordovician oil discovery at Midale, Saskatchewan. A number of pools have been found in the Ordovician along with material exploration in the many other prospective horizons. Further exploration at Bistcho Lake in northwestern Alberta established sufficient reserves to proceed with construction of a new sour gas plant through the 1996/97 winter. Drilling at Hoole in northeastern Alberta has also established threshold reserves for gas plant construction with an anticipated start-up in April 1997. New gas and oil production commenced at Lapp/Zarembo, British Columbia, providing Paramount with its first production from British Columbia; additional drilling this winter has established significant oil and gas reserves from multiple horizons and production is expected to increase to 10 MMcf/d (6 MMcf/d net) from this area in May 1997. Late in 1996, Paramount participated, as to a 40 per cent working interest, in a significant discovery at Puskwaskau in the Peace River arch area of Alberta. Results from this area remain confidential as we continue to evaluate the discovery; follow-up drilling will proceed throughout 1997.

Oil & Liquids  
Production  
bbl/d

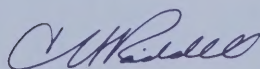


Paramount conducted its first ever divestiture program in the summer/fall of 1996 with excellent results. The Company divested of 20 MMcf/d and 289 Bbl/d (23 MMcfeq/d) in daily production associated with 57.5 Bcfeq of proven gas reserves. At the same time, the Company purchased 61 Bcf of proven gas reserves which amounted to daily production of 29 MMcf/d. This rationalization allowed Paramount to increase its working interest to 100 per cent in the Corner, Leismer, Pony, and South Leismer projects and to add an additional 26 per cent interest in the Paramount-operated Kettle River and Quigley projects as well as add new production and exploration lands complementing our existing property at Kaybob. These asset transactions will ultimately provide higher profitability for Paramount from a more concentrated asset base and provide for incremental exploration opportunities in the future.

As noted in our message in 1996, in light of the depressed natural gas pricing environment at the time, Paramount consciously decided to continue with a strong exploration program while spending capital sufficient to maintain current production but deferring new plant construction. This strategy was diligently followed and is reflected in the operating results for 1996. Natural gas production was 127 MMcf/d as compared with 135 MMcf/d in 1995; crude oil and liquids production was 1,517 Bbls/d as compared with 807 Bbls/d in 1995. This translated into virtually the same overall production levels of 142 Mcfeq/d for 1996 as compared to 143 Mcfeq/d in 1995.

This strategy has left Paramount in an extremely strong position to add incremental production in 1997. Paramount's capital program in 1997 will be directed at a very diverse selection of projects ranging from development in its traditional shallow gas area to rank exploratory wildcats within its other core areas. New plant construction at Hoole, north-eastern Alberta, is nearing completion. Production from this Wabamun subcrop play will net Paramount an additional 15 MMcf/d as of April 1997. The major development projects in northeastern Alberta are at Kettle River, Corner, South Leismer and Clyde Lake where drilling and plant expansion will add 30 MMcf/d. We are encouraged by preliminary results of shallow horizontal drilling technology being implemented in these fields. In northwest Alberta the 40 MMcf/d (Paramount 40.75 per cent working interest) Bistcho Lake sour gas processing facility is nearing completion and will add 14 MMcf/d to Paramount's gas production and, more importantly, will bring the reality of production from Cameron Hills, N.W.T. much closer. In northeast British Columbia, drilling success from multiple reservoirs should increase production to 10 MMcf/d (6 MMcf/d net). At Midale, Saskatchewan, development drilling has increased Paramount's net production from the area to 1,000 Bbl/d, and further increases are expected through facility construction and additional exploratory drilling. Exploratory drilling is continuing at Puskwaskau and at Bovie Lake, Liard Basin, Northwest Territories, where the Paramount et al Bovie Lake C-76 well has been cased to a total depth of 3,220 metres. A second deep Middle Devonian test will spud at Maxhamish, northeast British Columbia, just south of the Northwest Territories border and should be at total depth in late May 1997. Results from these high risk/reward plays will be provided as received, subject to the confidential nature of the data.

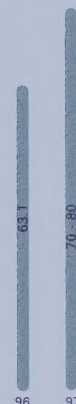
Clearly with such a diverse inventory of development and high impact exploratory opportunities, Paramount is poised for continued growth in 1997 and beyond.



C. H. Riddell  
President, Chairman of the Board

March 31, 1997

Cash Flow  
\$ millions

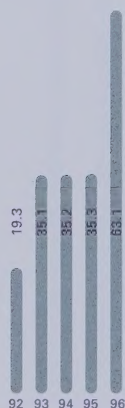


Capital Expenditures  
\$ millions





Cash Flow from Operations  
\$ millions



### Cash Flow from Operations

**Strong commodity prices increased revenue to over \$100 million and pushed cash flow up 79 per cent to a record \$63.1 million (\$3.95/share). Earnings were 354 per cent higher in 1996.**

Although production volumes were virtually unchanged, strong commodity prices increased Paramount's cash flow by 79 per cent to a record \$63.1 million (\$3.95/share). Continued strength expected in commodity prices and strong forecast growth in production volumes have encouraged Paramount to predict new records in financial and operational performance in 1997.

### Cash Flow Reconciliation in \$/Mcf (1 barrel equals 10 Mcf)

| Volume (MMcf)                      | 1996                 |         | 1995       |         |
|------------------------------------|----------------------|---------|------------|---------|
|                                    | 51,924               |         | 52,221     |         |
|                                    | \$ Million           | \$/Mcf  | \$ Million | \$/Mcf  |
| Revenue                            | \$ 100.6             | \$ 1.94 | \$ 69.9    | \$ 1.34 |
| Net royalty                        | (7.8)                | (0.15)  | (7.3)      | (0.14)  |
| Operating costs                    | (16.2)               | (0.31)  | (14.6)     | (0.28)  |
| Netback                            | \$ 76.6              | \$ 1.48 | \$ 48.0    | \$ 0.92 |
| G&A                                | (4.6) <sup>(1)</sup> | (0.09)  | (3.1)      | (0.06)  |
| Interest on long-term debt         | (6.4)                | (0.12)  | (7.2)      | (0.14)  |
| Lease rentals                      | (2.0)                | (0.04)  | (1.9)      | (0.04)  |
| Large Corporation/Current taxes    | (0.5)                | (0.01)  | (0.5)      | —       |
| Cash flow                          | \$ 63.1              | \$ 1.22 | \$ 35.3    | \$ 0.68 |
| Weighted average shares (millions) | 16.0                 |         | 15.9       |         |
| Cash flow per share                | \$ 3.95              |         | \$ 2.22    |         |

MMcf: barrels of oil and royalty income and processing income converted to gas sales on the basis of 1 barrel = 10 Mcf.

<sup>(1)</sup> Net of \$1 million non-cash write-off of Other Assets and other income.

### Capital Expenditures

**Net capital expenditures in 1996 were \$63.1 million, up 33 per cent from 1995 but in line with the Company's cash flow.**



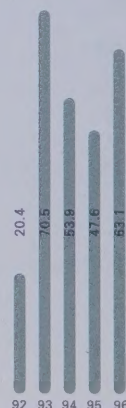
- Plant/Gathering
- Drilling/Seismic
- Arwaves
- 3rd Party Acquisitions
- Crown Land

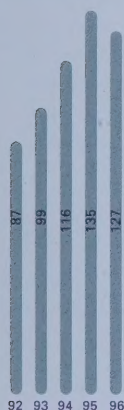
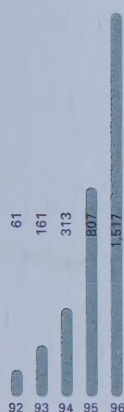
Gross capital expenditures of \$90.2 million were distributed as follows: \$14.8 million to acquire 100 per cent of Arwaves Resources Ltd. which holds the lands acquired at Kaybob, Alberta, \$11.2 million on other third-party acquisitions, \$24.1 million on drilling and seismic, \$9.5 million on Crown land purchases, and \$30.6 million on plant and gathering expenditures. Proceeds of \$27.1 million were received associated with divestitures of properties and equipment. 1996 also contained an asset swap valued at \$20 million that was not included in these totals.

### Capital Expenditures Profile

|                               | 1996       |            | 1995       |            |
|-------------------------------|------------|------------|------------|------------|
|                               | \$ Million | % Of Total | \$ Million | % Of Total |
| Drilling and seismic          | 24.1       | 38         | 23.9       | 50         |
| Crown land purchases          | 9.5        | 15         | 9.0        | 19         |
| Property acquisitions         | 26.0       | 41         | 0.5        | 1          |
| Plant/gathering and equipment | 30.6       | 49         | 15.5       | 33         |
| Less divestiture proceeds     | (27.1)     | (43)       | (1.3)      | (3)        |
| Net capital expenditures      | 63.1       | 100        | 47.6       | 100        |

Net Capital Expenditures  
\$ millions



Natural Gas Sales  
MMcf/dCrude Oil and  
Liquids Sales  
Bbl/d**Crude Oil and Natural Gas Sales and Prices**

Paramount's production totalled 142 MMcfq in 1996, virtually unchanged from 1995. Natural gas production was 127 MMcf/d versus 135 MMcf/d in 1995, down 6 per cent, while crude oil production increased by 88 per cent to 1,517 Bbl/d from 807 Bbl/d in 1995. The strategy of maintaining production through 1996 while aggressively exploring has created the opportunity for large increases in daily production for both natural gas and crude oil in 1997, forecast to average between 150 - 160 MMcf/d and 2,400 - 2,600 Bbl/d respectively, for a combined 180 MMcfq/d.

Commodity prices were very strong in 1996. Natural gas received \$1.84/Mcf versus \$1.30/Mcf, a 42 per cent increase over 1995. Oil prices were also very strong averaging \$27.91/Bbl in 1996 versus \$20.66/Bbl in 1995, a 35 per cent increase.

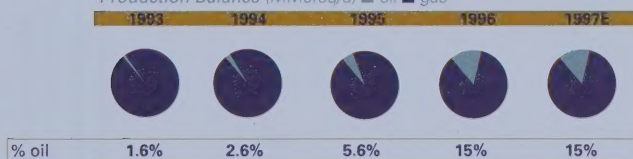
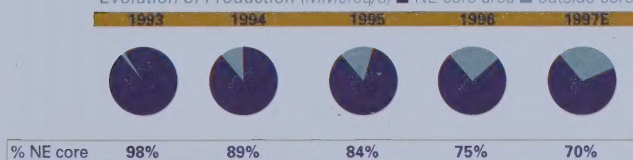
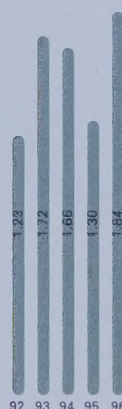
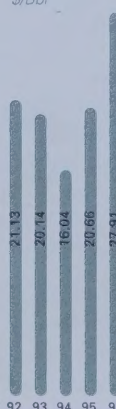
**The trend to diversify Paramount's revenue stream continued in 1996 where 15 per cent of our financial results were attributable to oil as compared to 9 per cent in 1995, further improving the balance between natural gas and crude oil.**

**Natural Gas: Volume and Price**

|                | 1996                     |                 | 1995                     |                 |
|----------------|--------------------------|-----------------|--------------------------|-----------------|
|                | Average Volume<br>MMcf/d | Price/Mcf<br>\$ | Average Volume<br>MMcf/d | Price/Mcf<br>\$ |
| First quarter  | 123.9                    | 1.78            | 135.1                    | 1.32            |
| Second quarter | 130.1                    | 1.65            | 140.9                    | 1.25            |
| Third quarter  | 129.0                    | 1.72            | 135.2                    | 1.18            |
| Fourth quarter | 123.8                    | 2.21            | 128.7                    | 1.46            |
| Annual average | 127.1                    | 1.84            | 135.0                    | 1.30            |
| Annual sales   | 46.4 Bcf                 |                 | 49.3 Bcf                 |                 |

**Crude Oil and Liquids: Volume and Price**

|                | 1996                    |                 | 1995                    |                 |
|----------------|-------------------------|-----------------|-------------------------|-----------------|
|                | Average Volume<br>Bbl/d | Price/Mcf<br>\$ | Average Volume<br>Bbl/d | Price/Mcf<br>\$ |
| First quarter  | 1,029                   | 23.66           | 810                     | 20.58           |
| Second quarter | 1,449                   | 26.44           | 653                     | 20.80           |
| Third quarter  | 1,666                   | 28.18           | 887                     | 19.89           |
| Fourth quarter | 1,898                   | 31.11           | 876                     | 21.44           |
| Annual average | 1,517                   | 27.91           | 807                     | 20.66           |
| Annual sales   | 553,605 Bbls            |                 | 294,650 Bbls            |                 |

**Production Balance (MMcfq/d)** ■ oil ■ gas**Evolution of Production (MMcfq/d)** ■ NE core area ■ outside coreNatural Gas Price  
\$/mcfCrude Oil and  
Liquids Price  
\$/Bbl



### Operated Plant Capacity

Operated plant capacity decreased 5 per cent to 135 MMcf/d mainly as a result of pressure declines in older fields. Utilization was 82 per cent, consistent with the previous years. Significant to note is the comparison between capacity before the divestiture program and after the divestiture program which shows virtually identical capacity of 135 MMcf/d. The majority of the lands acquired at Kaybob are non-operated, and as such, represent the additional 9 MMcf/d in daily volumes gained as a result of the acquisition/divestiture program.

### Operated Plant Capacity <sup>(1)</sup>

|                                    | 1996 | 1995 |
|------------------------------------|------|------|
| <i>(Defined as at December 31)</i> |      |      |
| Number of gas plants               | 12   | 15   |
| Net plant capacity (MMcf/d)        | 135  | 142  |
| Gross plant capacity (MMcf/d)      | 217  | 231  |
| Utilization (%) <sup>(2)</sup>     | 82   | 88   |

<sup>(1)</sup> Capacity is defined as "best month" production unencumbered by transportation restriction per plant per year.

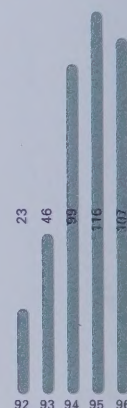
<sup>(2)</sup> Utilization is the ratio of the average monthly production over the best month production.

### Drilling Results

**The drilling activity level was maintained in 1996 with Paramount drilling 107 gross wells at a success rate of 91 per cent, comparable with 1995 results.**

Drilling was again concentrated, but to a lesser degree, in northeastern Alberta where 68 gross wells were drilled at a 93 per cent success rate. An additional 10 wells were drilled in central Alberta at a 60 per cent success rate although all four dry holes were drilled by outside operators at no cost to the Company. Further drilling was completed in northwest Alberta where 13 wells were drilled at Bistcho and Zama at a 100 per cent success rate, and at Midale, Saskatchewan, where 13 wells were drilled with 12 successful oil wells and one dry and abandoned. The one dry and abandoned well was a shallow Mississippian test outside of the main Midale play. This shift from 74 per cent of Paramount's wells being drilled in northeastern Alberta in 1995 compared to 63 per cent in 1996 is a further indication of the evolution of Paramount's production and reserve mix growing outside of the traditional northeastern Alberta area.

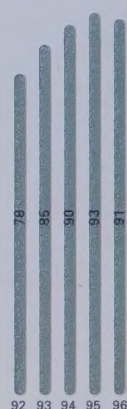
Wells Drilled gross



### Drilling Results

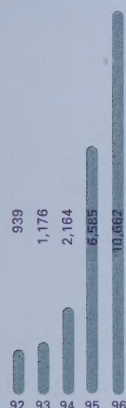
| Drilling Results     |      |       |      |       |
|----------------------|------|-------|------|-------|
|                      | 1996 |       | 1995 |       |
|                      | Net  | Gross | Net  | Gross |
| Exploratory          |      |       |      |       |
| Gas                  | 15.7 | 28    | 15.1 | 31    |
| Oil/oil and gas      | 0.9  | 3     | 2.3  | 3     |
| Standing/service     | 0.5  | 2     | 1.8  | 3     |
| Dry                  | 1.5  | 7     | 2.0  | 3     |
| Total Exploratory    | 18.6 | 40    | 21.2 | 40    |
| Success rate (gross) | 82%  |       | 93%  |       |
| Development          |      |       |      |       |
| Gas                  | 20.3 | 49    | 27.4 | 57    |
| Oil/oil and gas      | 3.6  | 14    | 4.0  | 4     |
| Standing             | 0.5  | 1     | 3.7  | 10    |
| Dry                  | 2.0  | 3     | 2.4  | 5     |
| Total Development    | 26.4 | 67    | 37.5 | 76    |
| Success rate (gross) | 96%  |       | 93%  |       |
| All well categories  | 45.0 | 107   | 58.7 | 116   |
| Success rate (gross) | 91%  |       | 93%  |       |

Drilling Success gross%





Crude Oil & Liquids  
Reserves  
Proven and Probable  
gross before royalties  
MBbl



## Reserves

Paramount replaced its production of 52 Bcfeq by 233 per cent in 1996. Additions totalled 28.1 Bcf of gas and 4.1 million barrels of crude oil and liquids, or 68.9 Bcfeq additional reserves as estimated by McDaniel & Associates of Calgary. Reserves now stand at 476 Bcf of gas and 10.7 million barrels of oil and liquids, a year-over-year growth of 6 per cent and 62 per cent, respectively. Reserve additions were attributable to exploration (+56.0 Bcf, +4118 MBbl), revisions (+13.9 Bcf, +817 MBbl), and acquisitions net of dispositions (+4.9 Bcf, -413 MBbl).

The diversification of Paramount's asset base continued in 1996 with reserves located outside of the northeast shallow gas area increasing to 52 per cent as compared to 45 per cent in 1995. The production split also continued this evolution with 25 per cent or 35 MMcfeq coming from outside the northeast shallow gas area versus 18 per cent in 1995.

***This trend is expected to continue in 1997 as northeast volumes are maintained while production in Paramount's other core areas continues to grow.***

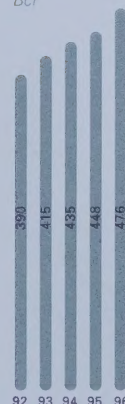
### Natural Gas Reserves (Bcf)

|                        | 1996  |            | 1995  |            |
|------------------------|-------|------------|-------|------------|
|                        | Bcf   | % of Total | Bcf   | % of Total |
| Proven: Producing      | 190.6 | 40         | 195.9 | 44         |
| Non-producing          | 155.2 | 33         | 149.4 | 33         |
| Subtotal               | 345.8 | 73         | 345.3 | 77         |
| Probable additional    | 130.6 | 27         | 103.0 | 23         |
| All reserve categories | 476.4 | 100        | 448.3 | 100        |

### Crude Oil and Liquids Reserves (MBbl)

|                        | 1996   |            | 1995  |            |
|------------------------|--------|------------|-------|------------|
|                        | MBbl   | % of Total | MBbl  | % of Total |
| Proven: Producing      | 5,090  | 48         | 2,896 | 44         |
| Non-producing          | 484    | 4          | 199   | 3          |
| Subtotal               | 5,574  | 52         | 3,095 | 47         |
| Probable additional    | 5,088  | 48         | 3,490 | 53         |
| All reserve categories | 10,662 | 100        | 6,585 | 100        |

Natural Gas Reserves  
Proven and Probable  
gross before royalties  
Bcf



## Land

Land inventory at the end of 1996 totalled 1.464 million acres, virtually the same as 1995 levels. The main point to mention is that land assigned reserves has decreased from 626,483 acres to 531,934 acres while reserves increased by 13 per cent, reflecting a more concentrated asset base. In addition, undeveloped land increased from 842,700 acres to 932,377 acres, representing an 11 per cent increase in net undeveloped land. Undeveloped land value increased by 10 per cent to \$42.1 million from \$38.4 million in 1995.

## Land

| (thousand acres)                                 | 1996      |       | 1995      |       |
|--------------------------------------------------|-----------|-------|-----------|-------|
|                                                  | Net       | Gross | Net       | Gross |
| Land assigned reserves                           | 532 (36%) | 709   | 626 (42%) | 1,019 |
| Undeveloped land                                 | 932 (64%) | 1,579 | 843 (58%) | 1,324 |
| Total                                            | 1,464     | 2,288 | 1,469     | 2,343 |
| Value of undeveloped land<br>@ FMV (\$ millions) | \$ 42.1   |       | \$ 38.4   |       |

## Finding and Development Costs: 1992 to 1996

Paramount calculates finding and developments costs by the following formula:

$$\frac{\text{Total capital expenditures} - \text{disposition proceeds} \pm \text{change in fair market value of undeveloped lands}}{\text{Reserve additions (oil to gas conversion of 1 barrel} = 10 \text{ Mcf)}}$$

Proven only finding and development costs on a five-year average are \$0.58/Mcfeq.

Net (Appraised)  
Asset Value  
\$/share



## Net (Appraised) Asset Value

| (\$ millions)                                                              | 1996     | 1995     |
|----------------------------------------------------------------------------|----------|----------|
| Reserve Value (Escalating price assumption)<br>@ 15 per cent discount      | 360.8    | 230.2    |
| Alberta Royalty Tax Credit (ARTC) <sup>(1)</sup><br>@ 15 per cent discount | 6.2      | 6.3      |
| Fair market value of undeveloped land                                      | 42.1     | 38.4     |
| Subtotal                                                                   | 409.1    | 274.9    |
| Working capital (deficiency)                                               | (17.0)   | (0.4)    |
| Total Assets                                                               | 392.1    | 274.5    |
| Less: Long-term debt (operating)                                           | 63.1     | 86.1     |
| Net (appraised) asset value                                                | 329.0    | 188.4    |
| Net (appraised) asset value per share at December 31 <sup>(2)</sup>        | \$ 20.06 | \$ 11.85 |

<sup>(1)</sup> ARTC: only on proven reserves

<sup>(2)</sup> Outstanding shares: 1996 – 16,401,200; 1995 – 15,901,200

Net (appraised) asset value at December 31, 1996, increased 69 per cent to \$20.06 per share.



  
*Key Areas of Focus***Shallow Gas: Northeastern Alberta**

Paramount's shallow gas area was the focus area of consolidation in the Company's divestiture program executed in 1996. Paramount's interests in Osi Lake, Jean Lake, Liege, Chip Lake, West Chip, Blanchett and Wappau Lake were divested, but at the same time, its interests in the Kettle River, Quigley, Corner, Leismer, Pony and South Leismer projects were increased for the most part to 100 per cent. These moves have streamlined Paramount's operations, lowered its operating costs, and provided it with improved overall development potential.

Moving into 1997, Paramount is conducting an extensive exploration and development program, the most significant aspect of which is the application of shallow horizontal drilling technology to improve reservoir performance and increase the overall economics of these properties. Results to date are encouraging while long-term performance will be closely monitored.

**Sandstone Shallow Gas Trend****CORNER**

Paramount acquired the remaining 33 per cent of the Corner gas plant in 1996 bringing its working interest to 100 per cent. Five new wells were drilled in 1996 resulting in four gas wells and one dry hole. These wells, in conjunction with previous existing wells and new drilling in the first quarter of 1997, of which two wells will be drilled horizontally, will be the basis for further plant expansion in the winter of 1996/97. With the addition of 19 miles of gathering and 1,650 horsepower of additional plant compression, an additional 10 MMcf/d will be added bringing Paramount's net production capacity to 33 MMcf/d.

**KETTLE RIVER**

An additional 26.25 per cent working interest was purchased in the majority of the lands at Kettle River bringing Paramount's total to 100 per cent on those lands and 92 per cent in the entire project. 1996/97 drilling of six wells, of which two will be shallow horizontal wells, and the addition of booster compression will add an additional 10 MMcf/d bringing Paramount net production capacity from Kettle River to 30 MMcf/d.

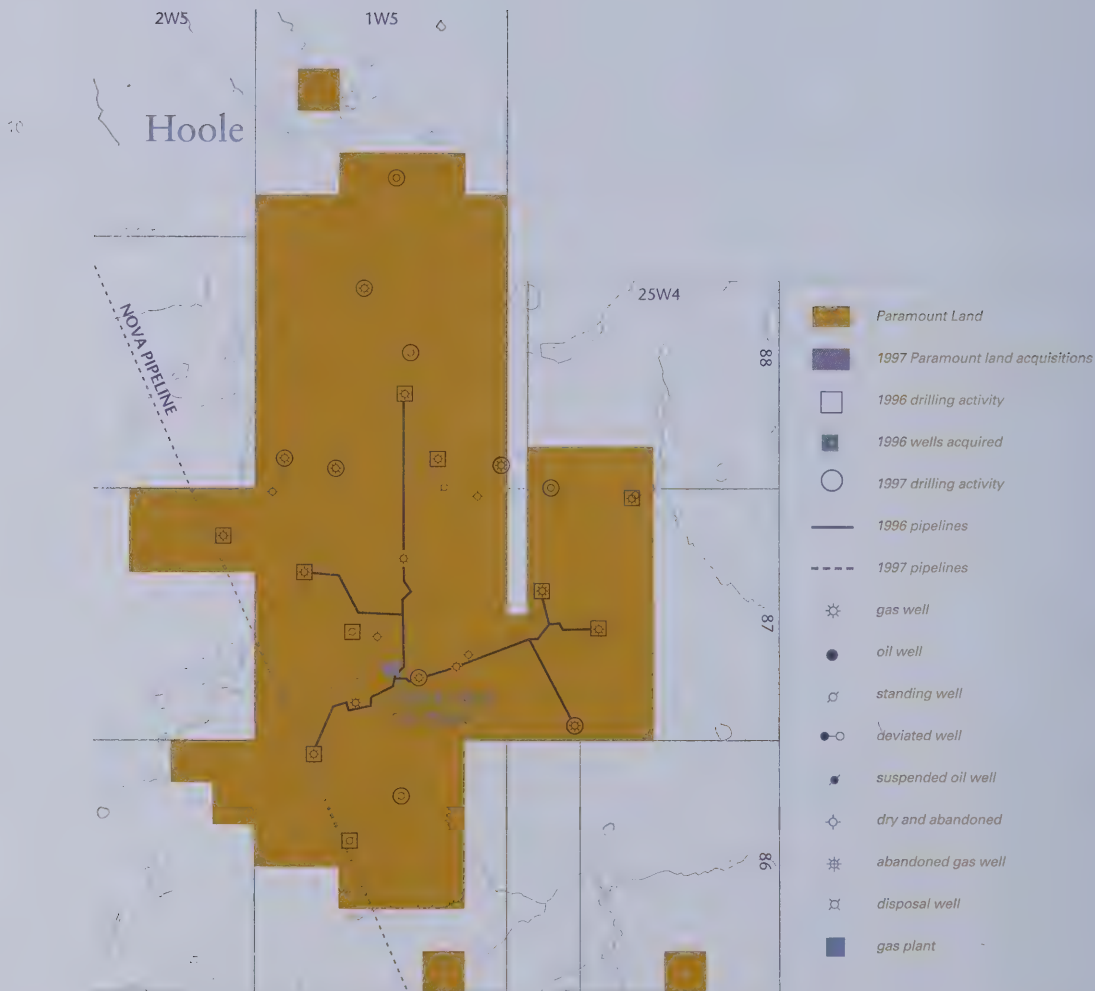
The Chard and Kettle River facilities will be combined in 1997 to allow for enhanced economics through the later life of both of these projects.

**SOUTH LEISMER**

Production at South Leismer has stabilized through 1996 to average 8.2 MMcf/d. As part of the acquisition program, the additional working interests of partners were purchased increasing Paramount's working interest from 36 per cent to 100 per cent. In 1996, four wells were drilled and 15 miles of gathering system were built. Reconfiguration of the compressor at South Leismer through the installation of one used 2,500 horsepower compressor has made three 1,650 horsepower compressors available for use at the Corner and Bistcho Lake plants. Further development is continuing through 1997 with the drilling of ten wells, three of which are shallow horizontal wells, and the construction of four miles of gathering system which will add an additional 6 MMcf/d of production at South Leismer.

**CLYDE LAKE**

The Clyde Lake project will commence production in July 1997 at 6 MMcf/d. Through the winter of 1996/97, three vertical wells and two shallow horizontal wells will be drilled and five miles of gathering system will be laid connecting these new wells with two existing wells drilled in 1995. Plant construction will proceed through the spring to meet the July onstream date. Production from Clyde Lake is from the Wabiskaw/McMurray sands as well as the Colony sands. Paramount owns a 50 per cent working interest in the Clyde Lake project.



### Carbonate Shallow Gas Trend

#### HOOLE

Exploration for shallow gas along the Devonian Wabamun subcrop led Paramount to participate in the drilling of an additional ten wells at Hoole with a 100 per cent success rate. Concurrent with this drilling, the construction of 25 miles of gathering system and a 40 MMcf/d gas plant will add 15 MMcf/d net to Paramount. In addition to this project, Paramount is pursuing other gas opportunities along this trend as well as exploring for heavy oil in the Cretaceous Wabiskaw. Paramount has significant heavy oil leases in the area with one new exploratory well and one recompletion operation in early 1997 pursuing this play.

#### LIEGE AREA

The majority of the properties Paramount divested in 1996 were located in the Liege area and were predominately producing from the Devonian Grosmont formation. The Osi Lake, Jean Lake, Liege, Chip Lake, West Chip, Blanchett properties representing 20 MMcf/d of net production were sold. It is important to note that this does not represent all of Paramount's production in the Liege area with production continuing at North Liege, Legend and East Liege for a total net production of 24 MMcf/d for 1996, and Paramount continues to pursue opportunities in this play area. The Legend East project had two wells drilled in 1996; these were followed up with seven additional wells in 1997. Evaluation of the results of this program will proceed through the summer of 1997 with the intention of developing a program to bring these reserves onstream in the 1997/98 season.



*new directions*



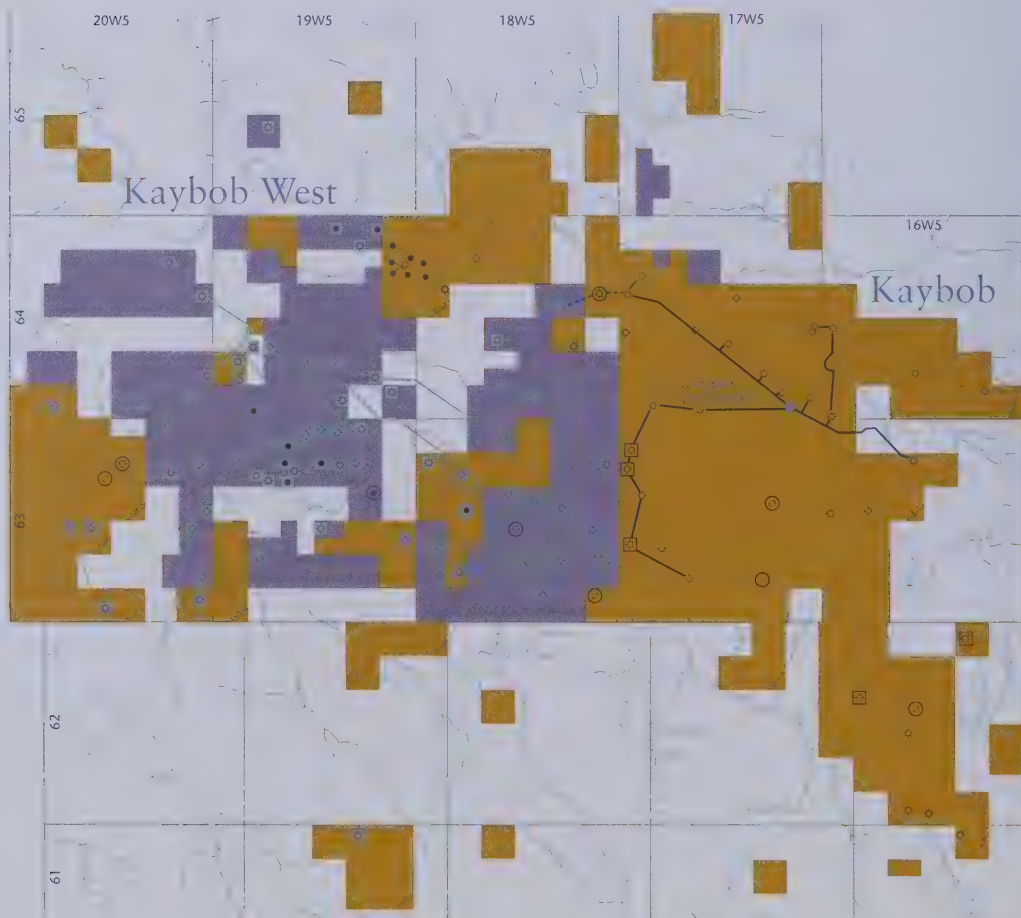
## Central Alberta

### KAYBOB

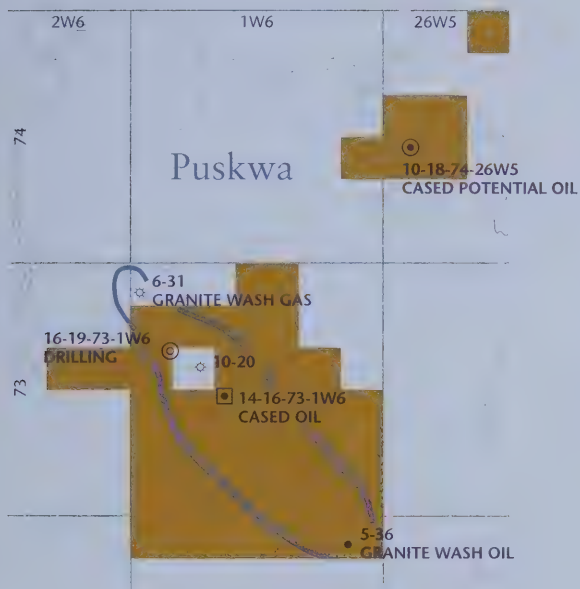
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In 1996 Paramount constructed a central battery and gathering system at Kaybob West. In addition, a waterflood scheme has been implemented to improve rates and recoveries. At Kaybob West oil production has stabilized to average 375 Bbl/d through 1996, and with the recent completion of the waterflood, increased production is anticipated. At the Kaybob gas plant Paramount drilled three wells and tied in the southwest lateral adding an initial 15 MMcf/d. Industry activity has been very strong in the area with Paramount successfully negotiating the farmout in 1997 of a minimum of 15 wells to four separate companies. Production increases from this activity will predominately be seen in late 1997, early 1998.

Paramount was successful in acquiring offsetting production and acreage amounting to an additional 9 MMcfq. These lands complement Paramount's existing infrastructure very well and provide for considerable operational synergies and further exploratory development opportunities for the future. A development program for the third quarter of 1997 is being prepared for these lands.







#### PUSKWASKAU (Puskwa)

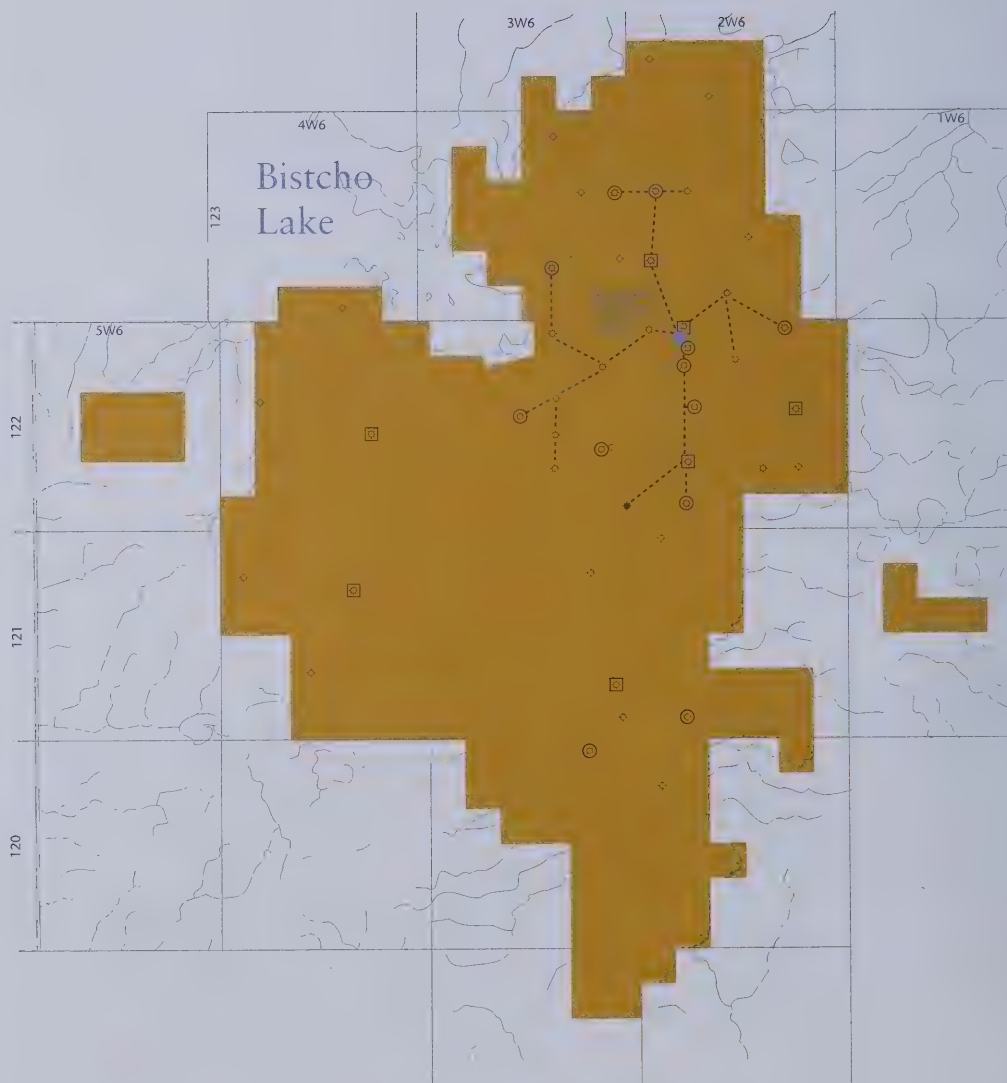
In late 1996 Paramount participated in the 14-16-73-1 W6M well which has been drilled and cased to 3,115 metres. The well has been completed and placed on production with results to be released at a future date. In January 1997, Paramount participated in a second well at 10-18-74-26 W5M on a separate prospect at Puskwa which has also been cased to total depth of 3,025 metres. This well, at the time of writing, is awaiting completion. In addition, a third well offsetting the initial discovery at 16-19-73-1 W6M has commenced drilling with results expected in early May 1997. Results to date are encouraging, and future information will be provided in a timely manner.

#### Northwest Alberta/ Northeast British Columbia

##### LAPP/ZAREMBA

Paramount established its first production in British Columbia in 1996 by tying 3 MMcf/d of Triassic halfway gas production in to a new outside-operated gas plant via a three-mile gathering system. In addition, in the first quarter of 1996, a new oil discovery was made in the Triassic Charlie Lake member with initial rates of 150 Bbl/d. Further activity through the 1996/97 winter resulted in three gas wells which are currently being tied in. These wells will increase Paramount's production to 10 MMcf/d (6 MMcf/d net) from this area.





#### BISTCHO LAKE

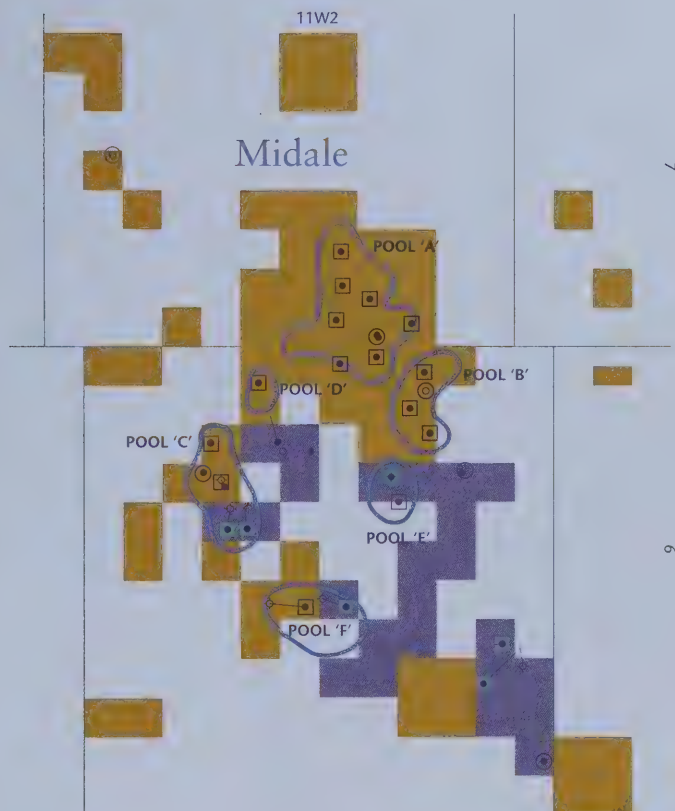
A six-well drilling program and extensive testing program of new and existing wells conducted in 1996 has led Paramount to proceed with the construction of a 40 MMcf/d sour gas processing facility and associated gathering system. Development drilling of ten wells, three disposal wells and one horizontal side-track with a 100 per cent success rate was completed through the 1996/97 season. Preliminary estimates are that the capability of the wells to be tied-in to the initial phase of development exceeds the supply requirements by 20 per cent or 10 MMcf/d. The construction of the Bistcho Lake sour gas plant drastically changes the economics for the Cameron Hills project in the Northwest Territories. Infrastructure is now within 40 miles of Cameron Hills, cutting in half the previous distance. Work is underway in evaluating the feasibility and timing of establishing production from Cameron Hills, held by the significant discovery licence obtained in 1991.

Additional exploratory drilling through the first quarter of 1997 at Sousa and Russet has resulted in two new wells for a 100 per cent success rate. Further delineation of these discoveries will proceed should further evaluation prove favourable.



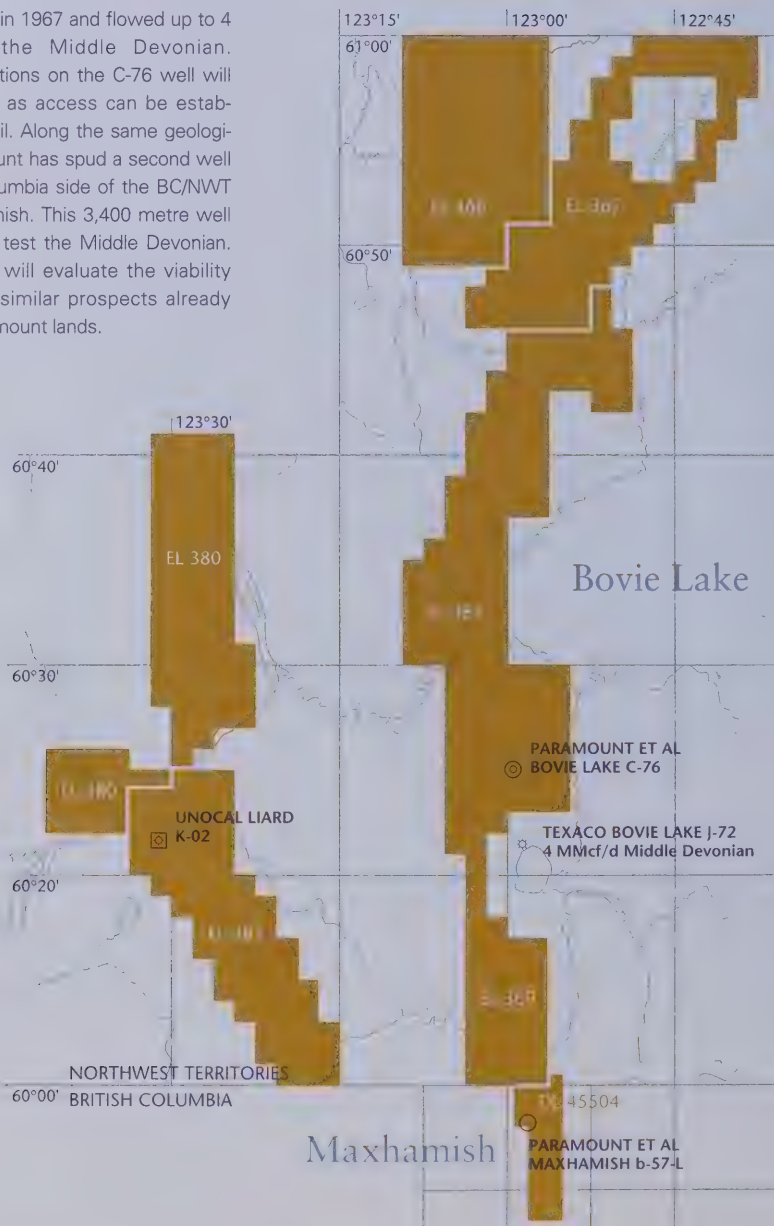
**Frontiers****MIDALE**

Paramount has an interest in 15 wells currently on production in the Midale area. Current net production is approximately 1,000 Bbl/d although this volume is expected to increase to 2,500 Bbl/d by the end of 1997. In addition, in the first quarter of 1997 Paramount participated as to a 7.5 per cent working interest in the acquisition of Shell Canada's interests in the Midale area. This acquisition initially adds 200 Bbl/d of production and provides significant opportunities to add to this total. Further development will continue with additional drilling and facilities construction in mid 1997. Paramount will participate in a minimum of five new pool wildcats on the play in 1997.



# FORT LIARD, NORTHWEST TERRITORIES

In the Fort Liard area of the southern Northwest Territories, Paramount has interests in over 300,000 gross acres of land. Paramount participated in the drilling of the Unocal K-02 well, a 1,700 metre test which was subsequently dry and abandoned. Paramount has cased the Bovie Lake C-76 well to a total depth of 3,220 metres. This well offsets the Texaco Bovie Lake J-72 well which was drilled in 1967 and flowed up to 4 MMcf/d from the Middle Devonian. Completion operations on the C-76 well will proceed as soon as access can be established in early April. Along the same geological trend, Paramount has spud a second well on the British Columbia side of the BC/NWT border at Maxhamish. This 3,400 metre well will also primarily test the Middle Devonian. These two tests will evaluate the viability of several other similar prospects already identified on Paramount lands.



**The following discussion and analysis, as provided by the management of Paramount Resources Ltd., should be read in conjunction with the audited consolidated financial statements included elsewhere in this Annual Report.**

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MD&amp;A/1996 financial statements

Annual information form

PARAMOUNT RESOURCES LTD.

The year 1996 was of record proportions and achievements for Paramount with total petroleum and natural gas revenues in excess of \$100 million. This represents an increase of 44 per cent over 1995. As a result of this significant revenue growth, both net earnings and cash flow from operations were also up dramatically. Cash flow from operations of \$63.1 million (\$3.95 per common share) was 78 per cent higher than 1995, and net earnings of \$25.5 million (\$1.59 per share) was 354 per cent higher than 1995.

The underlying basis for this dramatic improvement in financial results was the significant recovery experienced in the North American marketplace for natural gas prices in 1996. Paramount's corporate average gas price realized in 1996 was \$1.84/Mcf as compared with \$1.30/Mcf for 1995. Included in these per Mcf amounts are realized hedging gains, net marketing profits and processing and royalty income.

Natural gas sales in 1996 averaged 127.1 MMcf/d, a slight decrease of 6 per cent when compared with 135 MMcf/d in 1995. However, this current level will grow quite positively with new projects coming onstream at Bistocho and Hoole, Alberta, by the summer of 1997. These two projects alone are estimated to add a combined 29 MMcf/d of new gas production as of April 1, 1997.

Petroleum prices realized were also up with \$27.91/Bbl achieved in 1996 versus \$20.66/Bbl in 1995. This 35 per cent increase in crude oil and liquids pricing, coupled with an 88 per cent growth in the volume of barrels sold, resulted in petroleum revenue of \$15.5 million, or more than two and one-half times that of the preceding year. As a result of this latter growth, Paramount currently has a natural gas/crude oil and liquids revenue diversification split of 85:15, even after the impact of the much higher gas prices realized on overall revenues, as compared with 91:9 last year. With crude oil and liquids volumes expected to grow in 1997, we believe that the revenue diversification will continue to increase.

1996 was also a year of significant asset management activity. Capital expenditures, including the acquisition of a subsidiary company with developed and undeveloped assets in a core area, were \$90.2 million. Proceeds of property sales, excluding the asset swap of \$20.0 million with Tarragon Oil & Gas Limited in northeast Alberta, totalled \$27.1 million. As a result of this significant asset acquisition/divestiture program, the Company has both diversified and strengthened its asset base in new growth and development areas and concentrated higher ownership in fewer operated plants in the traditional areas. It is anticipated that as a result, the Company will have lower operating costs and higher profitability.

Paramount follows the "successful efforts" method of accounting for its oil and gas operations. This method, unlike the alternative full cost accounting method, often generates a more conservative value for net earnings and cash flow as exploration expenditures, including exploratory dry hole costs, geological and geophysical costs, lease rentals on undeveloped properties as well as the cost of surrendered leases and abandoned wells, are expensed in the year incurred instead of being capitalized. To make our reported cash flow results somewhat comparable to industry practice, Paramount reclassifies geological and geophysical costs as well as surrendered leases and abandonment costs from operating to investing activities.

For the purposes of comparing annual Company unit revenues and costs, crude oil and liquids volumes have been converted to natural gas Mcfeq on the general industry standard equivalent basis of one barrel equals 10 Mcf.



### Petroleum and Natural Gas Revenue

In 1996, 85 per cent of Paramount's revenue was from the sale of natural gas as compared with 91 and 97 per cent in 1995 and 1994, respectively. Gross revenue increased by 44 per cent to \$100.644 million in 1996 as compared with \$69.887 million in 1995, primarily as a result of the increase in the natural gas sales prices realized overall, despite the impact of somewhat reduced production volumes as shown by the following tables.

Growth in crude oil revenue is the result of production rate growth coupled with higher average prices realized thereon, up 88 per cent and 35 per cent respectively.

| <i>Revenue analysis (\$ millions)</i>          | 1996       | 1995       | 1994      |
|------------------------------------------------|------------|------------|-----------|
| Natural gas                                    | \$ 85.191  | \$ 63.799  | \$ 70.460 |
| Crude oil and liquids                          | 15.453     | 6.088      | 1.833     |
| Total revenue                                  | \$ 100.644 | \$ 69.887  | \$ 72.293 |
| <i>Revenue variance analysis (\$ millions)</i> | 1996       | 1995       | 1994      |
| Natural gas revenues                           |            |            |           |
| Volume increase (decrease)                     | \$ (3.770) | \$ 8.897   | \$ 10.564 |
| Price increase (decrease)                      | 25.162     | (15.558)   | (3.429)   |
| Net revenue change                             | \$ 21.392  | \$ (6.661) | \$ 7.135  |
| Crude oil and liquids revenues                 |            |            |           |
| Volume increase (decrease)                     | \$ 5.350   | \$ 2.894   | \$ 1.117  |
| Price increase (decrease)                      | 4.015      | 1.361      | (0.468)   |
| Net revenue change                             | \$ 9.365   | \$ 4.255   | \$ 0.649  |

### Cash Flow Netbacks (Per Unit of Natural Gas Sales)

The following table illustrates the change in \$/Mcfeq netbacks with barrels of crude oil, liquids and royalty incomes converted to natural gas equivalents on a one barrel equals 10 Mcf basis.

|                                                         | 1996    | 1995    | 1994    |
|---------------------------------------------------------|---------|---------|---------|
| Total natural gas sales (MMcfeq)                        | 51,924  | 52,221  | 43,520  |
| Total average per day (Mcfeq/d)                         | 142.3   | 143.1   | 119.2   |
| Natural gas price (revenue) per Mcfeq                   | \$ 1.94 | \$ 1.34 | \$ 1.66 |
| Deduct:                                                 |         |         |         |
| Royalties                                               | 0.18    | 0.17    | 0.30    |
| Alberta Royalty Tax Credit                              | (0.03)  | (0.03)  | (0.03)  |
| Operating expense                                       | 0.31    | 0.28    | 0.31    |
| Lease rentals                                           | 0.04    | 0.04    | 0.04    |
| Interest on long-term debt                              | 0.12    | 0.14    | 0.14    |
| General and administrative expense (net) <sup>(1)</sup> | 0.09    | 0.06    | 0.09    |
| Large Corporation/Current taxes                         | 0.01    | —       | —       |
| Cash flow netback per Mcfeq                             | \$ 1.22 | \$ 0.68 | \$ 0.81 |
| As a % of the equivalent natural gas sales price        | 62.9%   | 50.7%   | 48.8%   |

<sup>(1)</sup> Net of other income and the write-off of Other assets.

### Royalty Expenses

The total royalty deducted from Paramount's petroleum and natural gas sales revenue in 1996 was \$9.258 million as compared with \$8.755 million for 1995. On a per Mcfeq basis this represents 9.3 per cent of the Company's average sale price of natural gas in 1996, down from 12.7 per cent and 18.1 per cent for 1995 and 1994 respectively.

| (\$ millions)                            | 1996    | 1995    | 1994    |
|------------------------------------------|---------|---------|---------|
| Crown royalties                          | 7.902   | 7.258   | 10.866  |
| Other royalties                          | 1.356   | 1.497   | 2.074   |
| Royalties                                | 9.258   | 8.755   | 12.940  |
| \$/Mcfeq                                 | \$ 0.18 | \$ 0.17 | \$ 0.30 |
| Natural gas price (Mcfeq)                | \$ 1.94 | \$ 1.34 | \$ 1.66 |
| Royalties as a % of equivalent gas price | 9.3%    | 12.7%   | 18.1%   |

In 1994 the Alberta government introduced a simplified natural gas royalty requirement that allowed producers to base their Crown royalty calculations on either corporate average or government-designated reference prices. Paramount has selected the corporate average price method. Recently the government provided to the industry invoices for the years 1994 and 1995 that enabled the Company to reconcile its estimated Crown royalties paid earlier with the government assessment of that owing. As a result of this delayed process, the Company has finally been able to determine that royalty overpayments were booked in 1995 and 1994 and are now a reduction to the 1996 Crown royalties otherwise payable.

#### Alberta Royalty Tax Credit

Paramount received the maximum Alberta Royalty Tax Credit (ARTC) for 1996 amounting to \$1.495 million as compared to \$1.475 million in 1995 and \$1.305 million in 1994. The 1994 amount was reduced by \$0.609 million as a result of an adverse reassessment pertaining to prior years.

Effective January 1, 1995, the ARTC was reduced from the previous cap of \$2.5 million to \$2 million, together with the maximum percentage of royalties to be rebated, also reduced from 85 per cent to 75 per cent. This new program is based on a three-year rolling term with no sunset provision.

#### Operating Expenses

Operating expenses were \$0.31 per Mcfeq in 1996 as compared with \$0.28 per Mcfeq and \$0.31 per Mcfeq for 1995 and 1994, respectively. Total 1996 operating expenses were \$16.196 million, as compared with \$14.624 million and \$13.658 million for 1995 and 1994, respectively. 1994 costs included a non-recurring outlay of \$1.4 million relating to the buyout of a gas processing agreement.

#### General and Administrative Expenses

Paramount does not capitalize any general and administrative (G&A) expenses, and all costs associated with gas market development are expensed into G&A.

General and administrative expenses in 1996 were \$5.972 million (\$0.09/Mcfeq) as compared with \$3.642 million (\$0.06/Mcfeq) in 1995 and \$4.328 million (\$0.09/Mcfeq) in 1994.

The \$2.330 million increase in 1996 over 1995 is the result of a write-off of a \$1.0 million investment in the Quebec City Cogeneration project previously carried in Other Assets, and payments to employees under the Share Appreciation Rights Plan (SARP) in the amount of \$1.514 million (\$34,000 for 1995). The SARP was introduced at the end of 1994 and replaced employee stock options as an incentive plan for senior employees.

|                                                        | 1996  | 1995  | 1994  |
|--------------------------------------------------------|-------|-------|-------|
| Office employees at year end                           | 47    | 48    | 44    |
| Capital expenditures per employee (\$ millions)        | 1.919 | 1.018 | 1.938 |
| Production per employee (MMcfeq/d)                     | 3.0   | 3.0   | 2.7   |
| Cash flow per employee (\$ millions)                   | 1.343 | 0.736 | 0.799 |
| Total expenses per MMcfeq produced (\$) <sup>(1)</sup> | 0.09  | 0.06  | 0.09  |

<sup>(1)</sup> Excluding the \$1.0 million write-off of Other assets.

### Financial Expenses

Financing expenses during 1996, representing interest paid on operating long-term bank debt, decreased to \$6.382 million (\$0.12/Mcfq) from \$7.185 million (\$0.14/Mcfq) in 1995 and \$5.873 million (\$0.14/Mcfq) in 1994. The Company does not capitalize any of its interest costs. Interest expense has been reduced by the interest income earned on the JEC debenture receivable in the amount of \$0.018 million (\$0.713 million for 1995 and \$1.405 million for 1994). Lower interest costs in 1996 were primarily the result of a lower effective average rate of interest of 7.1 per cent as compared with 8.0 per cent for 1995, on a virtually unchanged weighted average amount of bank loans outstanding during the year. As at December 31, 1996, there remains an unamortized deferred foreign exchange loss of \$1.155 million (1995 – \$1.441 million) as the result of the current weaker Canadian dollar relative to the exchange rate in effect at the time of a U.S. \$20 million bank debt financing made in 1992. Paramount has recorded deferred foreign exchange amortization losses of \$0.418 million for 1996 and \$0.478 million for 1995. These non-cash amounts are included in depreciation and depletion expense for financial statement reporting purposes.

### Depreciation and Depletion

Depreciation and depletion for 1996, excluding the amortization of foreign exchange loss of \$0.418 million, as computed on a project by project unit-of-production basis, was \$0.45/Mcfq compared to \$0.47/Mcfq for 1995 and \$0.36/Mcfq for 1994. The lower depletion rate reflects largely the sale of older producing properties in 1996.

### Income Taxes

See Note 7 to the audited financial statements for the details of this cost. During 1996, a wholly owned subsidiary of Paramount paid a small amount of cash income taxes.

Paramount has approximately \$152 million of unused tax pools at December 31, 1996. These tax pools are available to reduce future years' income at varying rates of amortization for the purposes of determining income tax (with the exception of the Large Corporation Capital Tax).

| <i>Tax Pools (\$ millions)</i>                   |            |
|--------------------------------------------------|------------|
| Undepreciated capital cost allowance             | 64         |
| Cumulative Canadian oil and gas property expense | 39         |
| Cumulative Canadian exploration expense          | 24         |
| Cumulative Canadian development expense          | 22         |
| Other                                            | 3          |
| <b>Combined total</b>                            | <b>152</b> |

Paramount does not anticipate paying any income taxes in 1997 based on our forecast of financial results from operations, levels of capital reinvestment and the remaining unused tax pools available.

### Net Earnings

Paramount has earned an average after-tax rate of return on a book basis, based upon the weighted average shareholders' equity invested, over the past three years of 15.8 per cent.

| <i>(\$ millions)</i>                  | 1996   | 1995  | 1994   |
|---------------------------------------|--------|-------|--------|
| Net earnings                          | 25.462 | 5.622 | 11.504 |
| Weighted average shareholders' equity | 104.6  | 86.4  | 79.0   |
| After tax rate of return              | 24.3%  | 6.5%  | 14.6%  |



**Capital Expenditures <sup>(1)</sup>**

Capital expenditures during 1996 were a net \$63.1 million, up 33 per cent from \$47.6 million in 1995. From its inception the Company has always expended at least all of its cash flow from operations on capital expenditures.

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| (\$ millions)                 | 1996        | 1995        | 1994        |
|-------------------------------|-------------|-------------|-------------|
| Drilling and seismic          | 24.1        | 23.9        | 28.5        |
| Crown land purchases          | 9.5         | 9.0         | 13.9        |
| Acquisition of subsidiary     | 14.8        | —           | —           |
| Property acquisitions         | 11.2        | 0.5         | 13.9        |
| Plant/gathering and equipment | 30.6        | 15.5        | 29.0        |
| <b>Subtotal</b>               | <b>90.2</b> | <b>48.9</b> | <b>85.3</b> |
| Less: Disposition proceeds    | 27.1        | 1.3         | 31.4        |
| <b>Net total</b>              | <b>63.1</b> | <b>47.6</b> | <b>53.9</b> |

<sup>(1)</sup> Capital Expenditures = Property and equipment plus geological and geophysical costs as disclosed by the Statement of Changes in Financial Position.

Included in 1996 plant and equipment is \$7.0 million of construction in progress costs regarding the Bistcho and Hoole plants.

Not included in the above capital expenditure and disposition proceeds amounts for 1996 and 1995 were \$20 million and \$6.364 million, respectively (Net Book Value basis), of property swap transactions made with oil and gas producers to facilitate Paramount's ongoing asset rationalization objectives. Paramount policy is to increase ownership in existing areas of major asset concentration while eliminating areas of smaller operated or non-operated ownership and, therefore, of less critical importance to the success of the Company.

**Marketing Arrangements**

Approximately 76 per cent of Paramount's natural gas sales were to long-term contracts sold through gas aggregators and direct sales purchasers during 1996 as compared with 77 per cent and 81 per cent for 1995 and 1994, respectively.

| Natural Gas Sales Per Market Group |                                                                          |  |  | 1996 |       | 1995 |       | 1994 |       |
|------------------------------------|--------------------------------------------------------------------------|--|--|------|-------|------|-------|------|-------|
|                                    |                                                                          |  |  | Bcf  | %     | Bcf  | %     | Bcf  | %     |
| Long term contracts                |                                                                          |  |  |      |       |      |       |      |       |
| Aggregators                        |                                                                          |  |  |      |       |      |       |      |       |
| Pan Alberta                        | Midwestern U.S., the U.S.<br>Pacific Northwest,<br>California and Quebec |  |  | 15.8 | 34.0  | 15.5 | 31.5  | 15.3 | 36.1  |
| Progas                             | Northeastern U.S.                                                        |  |  | 8.8  | 19.0  | 9.6  | 19.5  | 6.2  | 14.6  |
| Canstates/Temco                    | Northeastern U.S.                                                        |  |  | 4.6  | 9.9   | 4.3  | 8.7   | 4.4  | 10.4  |
|                                    |                                                                          |  |  | 29.2 | 62.9  | 29.4 | 59.7  | 25.9 | 61.1  |
| Direct sales Selkirk               | New York State                                                           |  |  | 6.1  | 13.2  | 8.5  | 17.3  | 8.4  | 19.8  |
| Subtotal                           |                                                                          |  |  | 35.3 | 76.1  | 37.9 | 77.0  | 34.3 | 80.9  |
| Short term markets                 |                                                                          |  |  |      |       |      |       |      |       |
| Spot - California                  |                                                                          |  |  | 11.0 | 23.7  | 9.6  | 19.5  | 6.9  | 16.3  |
| Spot - Alberta/B.C.                |                                                                          |  |  | 0.1  | 0.2   | 1.7  | 3.5   | 1.2  | 2.8   |
| Total                              |                                                                          |  |  | 46.4 | 100.0 | 49.2 | 100.0 | 42.4 | 100.0 |

### Hedging Activities and Deferred Revenue

During 1996 Paramount realized \$2.087 million (1995 – \$8.033 million) of net revenue primarily related to the settlement of natural gas commodity hedging contracts that were previously put in place to shelter the Company somewhat from declining gas prices. Paramount's accounting policy is to recognize these gains in the accounting years of related production. The amounts of deferred hedging gains that will be recognized in revenue by the Company in 1997 and 1998 are \$1.226 million and \$0.864 million, respectively. Deferred revenue recognition timing extends through the years 1998 to 2003 inclusive.

### Bank Debt, Liquidity and Risk Management

One of the key components of Paramount's capitalization is debt funding. Properly managed, debt funding can enhance growth and profitability to shareholders without dilution or unnecessary risk. Paramount has historically utilized bank debt for new plant development capital expenditure purposes. As a result, over the past five years the Company has maintained a weighted average net debt to cash flow ratio of approximately 1.75:1. The Company plans to continue utilizing debt financing for development capital purposes and believes that a net debt to cash flow ratio of 2:1 is prudent in conjunction with our other risk management strategies employed related to debt matters. As at December 31, 1996, approximately \$58 million, or 73 per cent of the \$80 million net bank debt outstanding (including working capital deficiency), was subject to fixed interest rate agreements. The balance of debt was subject to floating interest rates applicable to financial instruments known as bankers' acceptances that generally provide for a lower rate of interest than the alternative bank prime rate cost of borrowing.

Paramount currently has outstanding currency swap agreements that have fixed the exchange rates on U.S. \$7.404 million of production revenue at Cdn. \$10.471 million over the next year representing coverage on approximately 12.6 per cent of potential U.S. dollar sourced production revenue.

Paramount's business plan for 1997 projects net capital expenditures to be in excess of free cash flow from operations. As a result, to redress a part of this deficiency, the Company placed privately a \$10 million Flow-Through Share issue on November 4, 1996. The Company's combined banking credit facilities are currently at \$120 million, comprising \$110 million term and \$10 million demand operating. The Company does not intend to increase this level in 1997. To meet additional capital expenditure requirements the Company will consider farmouts or sales of existing mature production if necessary.

Paramount's debt and equity capital structure at December 31, 1996, was as follows:

| (\$ millions, except per share)        | AT COST          |              |                         | AT MARKET <sup>(1)</sup> |              |                         |
|----------------------------------------|------------------|--------------|-------------------------|--------------------------|--------------|-------------------------|
|                                        | Amount           | %            | \$/Share <sup>(2)</sup> | Amount                   | %            | \$/Share <sup>(2)</sup> |
| Common share equity                    | \$ 120.70        | 49.4         | \$ 7.36                 | \$ 410.00                | 76.8         | \$ 25.00                |
| Net bank debt                          |                  |              |                         |                          |              |                         |
| (including working capital deficiency) | 80.00            | 32.7         | 4.88                    | 80.00                    | 15.0         | 4.88                    |
| Deferred taxes                         | 43.80            | 17.9         | 2.67                    | 43.80                    | 8.2          | 2.67                    |
| <b>Total</b>                           | <b>\$ 244.50</b> | <b>100.0</b> | <b>\$ 14.91</b>         | <b>\$ 533.80</b>         | <b>100.0</b> | <b>\$ 32.55</b>         |

<sup>(1)</sup> Close at December 31, 1996 – \$25.00/share.

<sup>(2)</sup> At December 31, 1996 – 16,401,200 common shares.

### Business Risks

Crude oil and natural gas operations involve certain risks and uncertainties and are affected by factors beyond the control of the Company. These include the uncertainty of discovering commercial quantities of new reserves, the marketability of reserves discovered or acquired, the risks and hazards associated with such operations and commodity and currency price volatility.

Paramount manages operating risk by focusing activities in areas where it believes it has sufficient technical expertise to be successful while maintaining a diverse inventory of geological prospects. The Company's historical dominant position in the northeastern Alberta shallow gas area has supplied a number of low risk opportunities which can be quickly converted into cash flow at maximum rates of return. More recently Paramount has broadened its core areas to include the Kaybob area of west central Alberta and the Bistcho/Zama area of northwestern Alberta. In addition, Paramount has participated in an important oil discovery at Midale, Saskatchewan, and one at Zarembo, British Columbia. The increase in oil production will diversify the revenue base and thereby reduce the dependency of Paramount on natural gas prices.

### Business Prospects

A review of the Company's 1997 business prospects is found in the President's Message.

### 1997 Cash Flow Forecast and Sensitivity Analysis

The following analysis shows the Company's 1997 cash flow sensitivity using the following base assumptions.

#### a) 1997 production

|                   |                     |
|-------------------|---------------------|
| Natural gas       | 150 – 160 MMcf/d    |
| Crude oil/liquids | 2,400 – 2,600 Bbl/d |

#### b) 1997 corporate average pricing

|                   |                  |
|-------------------|------------------|
| Natural gas       | \$1.80/Mcf       |
| Crude oil/liquids | U.S. \$20.00/Bbl |

#### c) Cash flow (after tax)

\$70 – \$80 million

#### d) 1997 capital budget (net of disposition proceeds)

\$70 million

#### Cash flow sensitivity:

|                                                    |               |
|----------------------------------------------------|---------------|
| Gas sales change of 10 MMcf/d                      | \$6.3 million |
| Gas price change of \$0.10/Mcf                     | \$5.1 million |
| Oil and liquids sales of 100 Bbl/d                 | \$0.8 million |
| Oil and liquids price change of \$1.00/Bbl         | \$0.7 million |
| Sensitivity to foreign exchange change \$0.01 Cdn. | \$0.8 million |
| Interest rates change 1%                           | \$0.8 million |



### Auditors' Report

To the Shareholders of Paramount Resources Ltd.

We have audited the consolidated balance sheets of Paramount Resources Ltd. as at December 31, 1996 and 1995, and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

February 24, 1997  
Calgary, Canada

### Management's Report

The accompanying financial statements of Paramount Resources Ltd. and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Audit Committee of the Board of Directors comprises a majority of non-management directors. The Committee meets periodically with Management as well as the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibility, and to review the Annual Report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young have full and free access to the Audit Committee and Management.



Clayton H. Riddell  
President and  
Chairman of the Board



G. Barry Padley, C. A.  
Chief Financial Officer and  
Corporate Secretary

**Consolidated Balance Sheets**

| <i>As at December 31</i>                                    | 1996       | 1995       |
|-------------------------------------------------------------|------------|------------|
| <i>(thousands)</i>                                          |            |            |
| <b>ASSETS</b>                                               |            |            |
| <b>Current</b>                                              |            |            |
| Cash                                                        | \$ 2       | \$ 109     |
| Note receivable (note 4)                                    | —          | 7,583      |
| Accounts receivable                                         | 46,684     | 16,857     |
| Alberta Royalty Tax Credit receivable                       | 124        | 126        |
| Inventory (note 2)                                          | 5,002      | 5,974      |
| Prepaid expenses                                            | 570        | 314        |
|                                                             | 52,382     | 30,963     |
| <b>Petroleum and natural gas properties (note 3)</b>        | 250,071    | 207,655    |
| <b>Other assets (note 4)</b>                                | 4,010      | 6,724      |
|                                                             | \$ 306,463 | \$ 245,342 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                 |            |            |
| <b>Current</b>                                              |            |            |
| Accounts payable and accrued charges (notes 8 and 10)       | \$ 69,332  | \$ 23,779  |
| Limited recourse bank loan payable (note 4)                 | —          | 7,583      |
|                                                             | 69,332     | 31,362     |
| <b>Bank loans (note 5)</b>                                  | 63,046     | 86,111     |
| <b>Provision for site restoration and abandonment costs</b> | 2,052      | 1,312      |
| <b>Deferred revenue</b>                                     | 7,500      | 7,189      |
| <b>Deferred income taxes</b>                                | 43,799     | 30,941     |
| <b>Commitments and contingency (notes 12 and 13)</b>        |            |            |
| <b>Shareholders' Equity</b>                                 |            |            |
| Share capital (note 6)                                      |            |            |
| Issued and outstanding                                      |            |            |
| 16,401,200 common shares                                    | 53,063     | 44,628     |
| (1995 – 15,901,200 common shares)                           |            |            |
| Retained earnings                                           | 67,671     | 43,799     |
|                                                             | 120,734    | 88,427     |
|                                                             | \$ 306,463 | \$ 245,342 |

See accompanying notes.

On Behalf of the Board



Director



Director

**Consolidated Statements of Earnings and Retained Earnings**

| <i>For the years ended December 31</i>                           | <b>1996</b>       | <b>1995</b>      |
|------------------------------------------------------------------|-------------------|------------------|
| <i>(thousands except for per share amounts)</i>                  |                   |                  |
| <b>Revenue</b>                                                   |                   |                  |
| Petroleum and natural gas sales (notes 11 and 12)                | <b>\$ 100,644</b> | <b>\$ 69,887</b> |
| Royalties                                                        | <b>(9,258)</b>    | <b>(8,755)</b>   |
| Alberta Royalty Tax Credit                                       | <b>1,495</b>      | <b>1,475</b>     |
| Other income                                                     | <b>333</b>        | <b>541</b>       |
|                                                                  | <b>93,214</b>     | <b>63,148</b>    |
| <b>Expenses</b>                                                  |                   |                  |
| Operating                                                        | <b>16,196</b>     | <b>14,624</b>    |
| Interest on long-term debt (note 4)                              | <b>6,382</b>      | <b>7,185</b>     |
| General and administrative                                       | <b>5,972</b>      | <b>3,642</b>     |
| Dry hole costs                                                   | <b>2,565</b>      | <b>2,150</b>     |
| Lease rentals                                                    | <b>1,955</b>      | <b>1,944</b>     |
| Geological and geophysical costs                                 | <b>2,921</b>      | <b>2,882</b>     |
| Depreciation and depletion                                       | <b>23,760</b>     | <b>24,969</b>    |
| Gain on sales of property and equipment                          | <b>(4,041)</b>    | <b>(13)</b>      |
| Provision for site restoration and abandonment costs             | <b>558</b>        | <b>203</b>       |
|                                                                  | <b>56,268</b>     | <b>57,586</b>    |
| <b>Income before income taxes</b>                                | <b>36,946</b>     | <b>5,562</b>     |
| Large Corporation Capital Tax (note 7)                           | <b>463</b>        | <b>440</b>       |
| Income taxes – current (note 7)                                  | <b>139</b>        | <b>–</b>         |
| – deferred (note 7)                                              | <b>10,882</b>     | <b>(500)</b>     |
|                                                                  | <b>11,484</b>     | <b>(60)</b>      |
| <b>Net earnings for the year</b>                                 | <b>25,462</b>     | <b>5,622</b>     |
| <b>Net earnings for the year per share</b>                       | <b>\$ 1.59</b>    | <b>\$ 0.35</b>   |
| <b>Weighted average number of shares outstanding (thousands)</b> | <b>15,979</b>     | <b>15,901</b>    |
| <b>Retained earnings, beginning of year</b>                      | <b>\$ 43,799</b>  | <b>\$ 39,767</b> |
| <b>Add net earnings for the year</b>                             | <b>25,462</b>     | <b>5,622</b>     |
|                                                                  | <b>69,261</b>     | <b>45,389</b>    |
| <b>Dividends paid</b>                                            | <b>1,590</b>      | <b>1,590</b>     |
| <b>Retained earnings, end of year</b>                            | <b>\$ 67,671</b>  | <b>\$ 43,799</b> |

See accompanying notes.



**Consolidated Statements of Changes in Financial Position**

| <i>For the years ended December 31</i>               | <b>1996</b>     | <b>1995</b>     |
|------------------------------------------------------|-----------------|-----------------|
| <i>(thousands except for per share amounts)</i>      |                 |                 |
| <b>Operating activities</b>                          |                 |                 |
| Net earnings for the year                            | \$ 25,462       | \$ 5,622        |
| Add (deduct) non-cash items                          |                 |                 |
| Depreciation and depletion                           | 23,760          | 24,969          |
| Dry hole costs                                       | 2,565           | 2,150           |
| Gain on sales of property and equipment              | (4,041)         | (13)            |
| Provision for site restoration and abandonment costs | 558             | 203             |
| Write-off of other assets                            | 1,000           | —               |
| Deferred income taxes                                | 10,882          | (500)           |
| Add items not related to operating activities        |                 |                 |
| Geological and geophysical costs                     | 2,921           | 2,882           |
| Cash flow from operations                            | 63,107          | 35,313          |
| Deferred revenue                                     | 310             | 7,189           |
| Changes in non-cash working capital items (note 9)   | 4,934           | 1,611           |
|                                                      | <b>68,351</b>   | <b>44,113</b>   |
| <b>Investing activities</b>                          |                 |                 |
| Property and equipment expenditures                  | (72,513)        | (45,998)        |
| Geological and geophysical costs                     | (2,921)         | (2,882)         |
| Acquisition of subsidiary (note 10)                  | (14,777)        | —               |
| Reduction of oil and gas JEC securities              | —               | 19,884          |
| Proceeds from sale of property and equipment         | 27,084          | 1,261           |
| Other                                                | —               | (1,543)         |
| Changes in non-cash working capital items (note 9)   | 11,512          | 2,417           |
|                                                      | <b>(51,615)</b> | <b>(26,861)</b> |
| <b>Financing activities</b>                          |                 |                 |
| Bank loans — operating (decrease) increase           | (23,066)        | 1,548           |
| — limited recourse loan, JEC investment              | —               | (17,917)        |
| Flow-through shares issued                           | 9,045           | —               |
| Cancellation of share option                         | (1,100)         | —               |
| Deferred foreign exchange loss decrease (increase)   | (132)           | 756             |
| Dividends paid                                       | (1,590)         | (1,590)         |
|                                                      | <b>(16,843)</b> | <b>(17,203)</b> |
| (Decrease) Increase in cash                          | (107)           | 49              |
| Cash, beginning of year                              | 109             | 60              |
| Cash, end of year                                    | \$ 2            | \$ 109          |
| Cash flow from operations per share before           |                 |                 |
| changes in non-cash working capital items            | \$ 3.95         | \$ 2.22         |
| <b>Weighted average number of shares</b>             |                 |                 |
| outstanding (thousands)                              | 15,979          | 15,901          |

See accompanying notes.

## 1. Summary of Significant Accounting Policies

All of the Company's operations are in the oil and gas industry. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles within the framework of the significant accounting policies summarized below.

### PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of Paramount Resources Ltd. and its wholly owned subsidiaries (collectively the "Company").

### SUCCESSFUL EFFORTS ACCOUNTING

The Company follows the Successful Efforts Method of accounting for its oil and gas operations. Under this method exploration expenditures, including geological and geophysical costs, lease rentals and exploratory dry hole costs, are charged to expense as incurred. Leasehold acquisition costs, including costs of drilling and equipping successful wells, are capitalized. Royalty interests are earned from farmout agreements with respect to which no costs are recorded. The net cost of abandoned wells and surrendered leases are charged to expense in the year of abandonment or surrender. Gains or losses are recognized on the disposition of properties and equipment.

Depletion and depreciation of oil and gas properties including well development expenditures, production equipment, gas plants and gathering systems are provided on the unit-of-production method based on estimated proven recoverable reserves of each producing property or project. Depreciation of other equipment is provided on a declining balance method at rates varying from 20 to 30 per cent.

The carrying value of capital assets, including acquired probable reserve costs, are subject to uncertainty associated with the quantity of oil and gas reserves, future production rates, commodity prices and other factors. Future events could result in material changes to the carrying values recognized in the financial statements.

The net amount at which petroleum and natural gas costs on a property or project are carried is subject to a cost recovery test.

### JOINT ACTIVITIES

Certain of the Company's oil and gas exploration, development and production activities are conducted jointly with others. The Company records only its proportionate interest in these activities.

### INVENTORY OF SUPPLIES

Inventory of supplies is carried at the lower of cost, on a first-in first-out basis, and net realizable value.

### INVENTORY OF NATURAL GAS IN STORAGE

Natural gas in storage is carried at the lower of cost and net realizable value. Cost includes all amounts incurred to produce the related gas, transport it to the storage facility and the cost of storage.

### INVESTMENT IN JEC – OTHER ASSETS

The investment in the oil and gas joint exploration corporation (JEC) is carried at cost. This amount is being amortized, as the related resource tax deductions are utilized in the current period, as an offset against the benefits realized.

### DEFERRED REVENUE – HEDGING TRANSACTIONS

The gains and losses from natural gas future and forward currency exchange contracts used to reduce the Company's exposure to market fluctuations on a portion of its production settled in U.S. dollars are recognized in the same period as the related production revenues.

### FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in U.S. dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the rate in effect at the time the transaction occurs. Gains and losses on translation are reflected in income when incurred except for unrealized gains or losses on translation of long-term bank loans which are deferred and amortized on a straight line basis over the expected minimum repayment period.

**PROVISION FOR SITE RESTORATION AND ABANDONMENT COSTS**

The estimated future costs related to site restoration and abandonment are accrued in the financial statements. This estimate, net of expected recoveries, includes the cost of equipment removal and environmental cleanup based upon regulations and economic circumstances at year end.

**FLOW-THROUGH SHARES**

The Company has financed a portion of its petroleum and natural gas exploration activities with a flow-through share issue. Under this type of financing arrangement, shares are issued at a fixed price and the proceeds are used to fund exploration and development activities within a defined time period. The exploration and development expenditures funded by flow-through share expenditures are renounced to investors in accordance with tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are renounced.

**2. Inventory**

Inventory consists of the following:

| (\$ thousands)         | 1996  | 1995  |
|------------------------|-------|-------|
| Supplies               | 4,630 | 5,923 |
| Natural gas in storage | 372   | 51    |
|                        | 5,002 | 5,974 |

**3. Petroleum and Natural Gas Properties**

| (\$ thousands)                                         | 1996    |                                        | 1995    |                                        |
|--------------------------------------------------------|---------|----------------------------------------|---------|----------------------------------------|
|                                                        | Cost    | Accumulated Depreciation and Depletion | Cost    | Accumulated Depreciation and Depletion |
| Petroleum and natural gas properties                   | 219,524 | 40,747                                 | 190,357 | 39,502                                 |
| Gas plants, gathering systems and production equipment | 129,598 | 59,298                                 | 111,773 | 55,856                                 |
| Other                                                  | 3,647   | 2,653                                  | 3,391   | 2,508                                  |
|                                                        | 352,769 | 102,698                                | 305,521 | 97,866                                 |
| Net book value                                         | 250,071 |                                        | 207,655 |                                        |

As at December 31, 1996, the cost of petroleum and natural gas properties includes approximately \$121,889,000 (December 31, 1995 – \$118,479,000) relating to properties from which there is currently no production and which are, therefore, not being depleted.

**4. Other Assets**

| (\$ thousands)                 | 1996  | 1995  |
|--------------------------------|-------|-------|
| Unamortized investment in JEC  | 2,855 | 4,283 |
| Deferred foreign exchange loss | 1,155 | 1,441 |
| Other                          | —     | 1,000 |
|                                | 4,010 | 6,724 |

During the first quarter of 1994, the Company and one of its wholly owned subsidiaries invested in an unrelated oil and gas joint exploration corporation ("JEC"). The Company's original investment comprised common shares, preferred shares and debentures of the JEC in the amount of \$900,000, \$5,350,000 and \$25,500,000, respectively. During 1996 the JEC paid Paramount \$17,999 of interest (1995 – \$713,399) pertaining to the debenture receivable, and this amount has been offset against interest expense on the earnings statement. On January 31, 1995, the JEC debenture receivable was paid down by \$17,916,667, and the Company used these funds to repay in full a like amount of the limited recourse bank loan financing obtained for this purpose.



On February 15, 1996, the balance of the JEC debenture receivable of \$7,583,333 was repaid in full, and the funds were used to repay the limited recourse bank loan outstanding. In addition the Company disposed of all its remaining common and preferred shares of the JEC on February 15, 1996, for proceeds of \$424,000. At December 31, 1995, the JEC note receivable and the limited recourse bank loan are included in current assets and current liabilities, respectively.

## 5. Bank Loans

Bank loans consist of the following:

| (\$ thousands)                                                       | 1996   | 1995   |
|----------------------------------------------------------------------|--------|--------|
| Bankers' acceptances – 30 days at an average rate 3.8% (1995 – 6.7%) | 5,134  | 28,331 |
| Bankers' acceptances – fixed rate                                    | 30,500 | 30,500 |
| LIBOR advances (U.S. \$20,000,000) – fixed rate                      | 27,412 | 27,280 |
|                                                                      | 63,046 | 86,111 |

The borrowing limit under Syndicated Extendible Revolving Term Credit Facilities ("Credit Facilities") at December 31, 1996, is \$110,000,000. The Credit Facilities are available on a demand revolving basis up to June 30, 1997, at which time (i) outstanding advances thereunder may be converted to a Reducing Non-Revolving Term Facility having a term of five years and repayable in 60 equal monthly payments, and (ii) the undrawn portion of the Credit Facilities will be cancelled. This conversion date may be extended at the sole discretion of the banks, upon the written request of the Company. In addition, the Company has a \$10,000,000 Operating Facility provided by the agent to the syndication banks.

Collateral pledged to the banks includes a first floating charge debenture covering all assets in the amount of \$150,000,000.

The Company has an interest rate exchange agreement on \$30,500,000 with its bank at a fixed rate of 8.4 per cent to May 11, 1998. The bank may at its option, immediately before termination, extend the term of this rate agreement to August 11, 2000. (Alternative Bankers' Acceptance 30 day floating rate for Paramount was 4.0 per cent on December 31, 1996.)

The Company has an interest rate exchange agreement on U.S. \$20,000,000 with its bank which has a termination date of October 26, 1999, at a fixed rate of 6.5 per cent. (Alternative LIBOR 30 day floating rate for Paramount was 6.4 per cent on December 31, 1996.)

## 6. Share Capital

Authorized – an unlimited number of non-voting preferred shares without nominal or par value, issuable in series, and an unlimited number of common shares without nominal or par value.

Changes in common share capital during the year were as follows:

| (\$ thousands)                                                                          | 1996       |          | 1995       |          |
|-----------------------------------------------------------------------------------------|------------|----------|------------|----------|
|                                                                                         | Shares     | \$,000's | Shares     | \$,000's |
| Issued and outstanding:                                                                 |            |          |            |          |
| Beginning of year                                                                       | 15,901,200 | 44,628   | 15,901,200 | 44,628   |
| Cancellation of share option                                                            | –          | (1,100)  | –          | –        |
| Flow-through shares issued for cash                                                     | 500,000    | 10,000   | –          | –        |
|                                                                                         | 16,401,200 | 53,528   | 15,901,200 | 44,628   |
| Deduct:                                                                                 |            |          |            |          |
| Tax benefits relating to qualifying expenditures renounced to flow-through shareholders | –          | (930)    | –          | –        |
| Tax benefit relating to cancellation of share option                                    | –          | 491      | –          | –        |
| Share issue costs, net of deferred tax benefits                                         | –          | (26)     | –          | –        |
| End of year                                                                             | 16,401,200 | 53,063   | 15,901,200 | 44,628   |

Effective October 1, 1996, an option agreement, in favour of an unrelated joint venture party, to purchase 500,000 shares of the Company at \$22.75 per share was terminated in consideration for the payment of \$1.1 million. As at December 31, 1996 and 1995, 250,000 share options outstanding were held by the President, who is also a director of the Company, and may be exercised at an option price of \$5.375 per share up to December 19, 1997.

## 7. Income Taxes

Income taxes differ from the calculated tax obtained by applying the Canadian corporate tax rate to the income for the year before income taxes. The differences are as follows:

| (\$ thousands)                                                         | 1996    | 1995    |
|------------------------------------------------------------------------|---------|---------|
| Corporate tax rate                                                     | 44.62%  | 44.57%  |
| Calculated income tax expense                                          | 16,485  | 2,479   |
| Add (deduct) the income tax effect of:                                 |         |         |
| Crown charges disallowed                                               | 3,944   | 3,608   |
| Utilization of renounced resource tax expenses,<br>net of amortization | (1,911) | (2,133) |
| Federal resource allowance                                             | (7,628) | (4,591) |
| Alberta Royalty Tax Credit                                             | (667)   | (657)   |
| Non-allowable depletion                                                | 601     | 751     |
| Other                                                                  | 197     | (29)    |
| Large Corporation Capital Tax                                          | 463     | 440     |
| Income tax provision                                                   | 11,484  | (60)    |
| Represented by:                                                        |         |         |
| Large Corporation Capital Tax                                          | 463     | 440     |
| Current income taxes                                                   | 139     | —       |
| Deferred income taxes                                                  | 10,882  | (500)   |
|                                                                        | 11,484  | (60)    |

## 8. Related Party Transactions

One of Paramount's directors is an officer of two entities which participate in oil and gas properties and gas plants operated by Paramount. During 1996, those entities' shares of revenues and royalties from such properties totalled approximately \$3,200,000 (1995 – \$3,200,000), of which approximately \$156,000 (1995 - \$249,000) is included in accounts payable at December 31, 1996.

## 9. Changes in Non-Cash Working Capital Items

| (\$ thousands)                                    | 1996     | 1995    |
|---------------------------------------------------|----------|---------|
| Accounts receivable                               | (22,244) | 8,699   |
| Alberta Royalty Tax Credit receivable             | 2        | 19      |
| Inventory                                         | 972      | (340)   |
| Prepaid expenses                                  | (256)    | (12)    |
| Accounts payable and accrued charges              | 37,971   | (4,338) |
| Change in non-cash working capital                | 16,445   | 4,028   |
| These changes relate to the following activities: |          |         |
| Operating activities                              | 4,933    | 1,611   |
| Investing activities                              | 11,512   | 2,417   |
|                                                   | 16,445   | 4,028   |

## 10. Acquisitions

Effective August 1, 1996, the Company acquired 100 per cent of the shares outstanding of a company now renamed Arwaves Resources Ltd. ("Arwaves") that owns producing and non-producing properties located in Alberta. The acquisition has been accounted for by the Purchase Method.

The acquisition was financed from an available undrawn portion of the Company's current Credit Facilities.

The purchase price has been allocated to assets acquired based on their estimated fair values as follows:

|                                                                       |           |
|-----------------------------------------------------------------------|-----------|
| (\$ thousands)                                                        |           |
| Undeveloped properties                                                | 2,159     |
| Producing properties                                                  | 13,076    |
| Tangible production equipment and lease facilities, gathering systems | 3,620     |
| Deferred income taxes                                                 | (3,895)   |
| Provision for site restoration and abandonment                        | (183)     |
| Purchase price paid (cash)                                            | \$ 14,777 |

Acquired assets did not include any working capital or debt. The Company has been indemnified by the vendor with respect to possible liabilities that may subsequently arise related to certain pre-acquisition activities. The agreement provides for an adjustment to the purchase price, in favour of either party, depending upon the final resolution of the amounts of tax pools and losses carry forward available to Arwavs. Additional consideration is limited to \$2 million.

### 11. Export Sales

During the year ended December 31, 1996, approximately 81 per cent (1995 – 87 per cent) of the Company's revenue was derived from sales made directly or indirectly to customers in the United States.

### 12. Hedging Transactions

The following hedging contracts were outstanding as at December 31, 1996.

The Company has entered into currency index swap transactions that remain outstanding, fixing the exchange rates on receipts of U.S. \$7,404,000 in 1997, and U.S. \$1,800,000 in 1998 at Cdn. \$1.4114, and Cdn. \$1.4000, respectively. The Canadian dollar/U.S. dollar conversion rate was \$1.3712 as at December 31, 1996.

The Company entered into several commodity swap transactions in 1995 that were outstanding as at December 31, 1995. The swaps involved the Company selling natural gas at Empress, Alberta, on a NYMEX-based price less a basis differential for periods from June 1, 1998 to June 1, 2003, on 13,190,000 MMBtu of natural gas. On February 29, 1996, the aforementioned commodity swap agreements were settled in full and closed with no future obligations by either counterparty, upon receipt of \$2,087,000 cash by Paramount, which amount has been included in Deferred Revenue.

During 1996, \$1,675,819 of net gains related to hedging contracts (1995 – \$3,123,000) are included in natural gas sales revenue.

Borrowings under bank credit facilities and issuances of commercial paper are for short terms and are market rate based; thus, carrying values approximate fair value. Fair values for derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at December 31. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices.

The fair values of other financial instruments, including cash and short-term investments, accounts receivable, and accounts payable and accrued liabilities, approximate their carrying values.

### 13. Contingency

The Company, together with the other working interest owners of a gas plant operated by Paramount, are in a dispute with a purchaser of gas from this plant over the appropriate calculation of certain royalty, operating and processing charges pursuant to an agreement which had been in effect since 1986 and which was cancelled during 1991. The parties to the dispute are currently attempting to negotiate a settlement. Management is unable to ascertain the outcome of this matter but estimates that the Company's share, excluding interest and legal costs, could range from a loss of \$1,335,000 to a gain of \$251,000 after tax. The ultimate settlement will be accounted for as a charge or credit to the statement of earnings in the year in which the settlement occurs.



### ***The Corporation***

Paramount Resources Ltd. was incorporated under the laws of the Province of Alberta on February 14, 1978. The Company commenced operations as a public company on December 18, 1978, when 1.469 million common shares were sold as an Initial Public Offering at \$3.50 per share and 2.140 million common shares were exchanged for the oil and natural gas assets of a private company, Paramount Oil & Gas Ltd.

On September 21, 1989, Paramount's common shares were split on a three-for-one basis, resulting in 11.630 million issued and outstanding common shares.

The fiscal year end of Paramount was changed in 1989 from April 30 to December 31, resulting in an eight-month transitional reporting period to December 31, 1989.

On January 1, 1992, as a result of the amalgamation of Paramount with one of its subsidiaries, Grosmont Resources Ltd., and one of its affiliates, Western D'Eldona Resources Limited, 2.100 million common shares of Paramount were issued.

On September 10, 1993, Paramount received regulatory approval for the distribution of 1.250 million common shares at \$22.75 per share upon the exercise of 1.250 million Special Warrants sold in July. The treasury equity sale raised net \$27.100 million which was used to further ongoing capital programs, acquire property and retire debt.

Paramount has issued additional treasury common shares since inception pursuant to an employee share option plan and an employee Registered Retirement Savings Plan.

On November 4, 1996 Paramount received \$10 million for the issue from treasury of 500,000 common shares pursuant to a Flow-Through Share Agreement with a number of senior employees on a private placement basis. The proceeds were added to working capital to be used for budgeted exploration and development in excess of projected cash flow from operations for 1997.

The Board of Directors of the Company has approved a three-for-one stock split subject to approval by shareholders at the forthcoming Annual and Special Meeting on May 15, 1997.

The head and principal office of the Company is located at Suite 4000 First Canadian Centre, 350 Seventh Avenue S.W., Calgary, Alberta T2P 3W5.

### ***Management of the Company***

The management of Paramount Resources Ltd. is provided by three officers who currently also serve as directors. There are six non-management directors to complete the Board of Directors. The names, municipality of residence, position with Paramount and principal occupation of each of the officers and directors can be found in the Management Information Circular dated as at March 20, 1997.

All directors stand for election at each Annual Meeting of the Company. A new Board of Directors was nominated and elected at the 1996 Annual Meeting held on May 16. These directors remain unchanged as at January 1, 1997. The 1997 Annual and Special Meeting will be held on May 15. As of December 31, 1996, all the directors and officers of the Company as a group beneficially owned 9.399 million common shares, representing 57.3 per cent of the 16.401 million issued and outstanding common shares of Paramount Resources Ltd.

### ***Description and Development of Business***

Paramount Resources Ltd. is a Canadian natural resource company which explores for, develops, produces and markets petroleum and natural gas throughout western Canada, primarily in Alberta, but also in British Columbia, Saskatchewan and the Northwest Territories.

Exploration efforts have historically been concentrated on the high deliverability shallow gas reserves located in northeastern Alberta. In the last five years the number of gas plants that Paramount operates in this area has grown from 8 to 12. Sales of natural gas from these plants account for 91 per cent of the Company's total natural gas production. This area continues to be an important area of continuing growth and activity.

Paramount's net productive capacity (including non-operated plants) has grown from 55 MMcf/d in 1988 to over 143 MMcf/d as at December 31, 1996. Ongoing exploration and development activities in northeastern Alberta are designed to establish new reserves of natural gas and increase the productive capacity of existing fields. In order to maximize its net capacity, the Company will increase ownership in existing plants as economic opportunities arise, occasionally dispose of lower working interest properties, and maintain high working interests in new facilities and exploration projects.

At December 31, 1996, approximately 77 per cent of Paramount's proven and probable natural gas reserves were located in Alberta, 20 per cent were located in the Northwest Territories, with the balance in British Columbia and Saskatchewan. Oil and natural gas liquids reserves are 54 per cent located in Alberta, with the remainder in Saskatchewan, British Columbia and the Northwest Territories. Paramount is operator of 96 per cent of its current natural gas production and approximately 45 per cent of its current oil production.

Paramount is continuing actively to explore for petroleum and natural gas reserves in central Alberta, northeastern British Columbia, Saskatchewan and the Northwest Territories. In 1996 the Company initiated natural gas and crude oil production from British Columbia. Efforts are continuing in the Northwest Territories with the drilling of a well at Bovie Lake in the Liard Basin. The development of new prospect areas ensures adequate supply for existing gas markets and contracts, and is accelerated when markets are sufficient to support additional supply.

#### **Competitive Conditions**

The petroleum and natural gas industry is competitive in all phases. Paramount competes with numerous other participants in the search for and acquisition of crude oil and natural gas properties and in the marketing of these commodities. Successful reserve replacement in the future will depend not only on the further development of present properties, but also on the ability to select and acquire suitable prospects for exploratory drilling.

Paramount has firm service for its natural gas production as opposed to interruptible allocations on pipeline systems. The Company closely monitors the daily production from all of its plants ensuring that contractual obligations will be met. The method of producing excess gas into storage to maintain production, even when markets may not be available, ensures the reliability of the supply of natural gas during peak demand periods and reduces unit operating costs. Natural gas sales will be directed to markets where prices are best, and sales contracts are focused toward the United States.

#### **Environmental Protection**

Paramount has in place an Environmental Committee of the Board of Directors comprising three directors of the Company. The tenet of the Company's environmental policy is as follows:

*Paramount Resources Ltd. "Paramount" is committed to protecting the environment, to maintaining public health and safety, and to compliance with all applicable environmental laws, regulations and standards. Paramount will do all that it reasonably can to ensure that sound environmental practices are followed in all of its operations and activities.*

The Committee is guided by a specific set of principles to ensure that this policy is supported. These principles apply to all the employees of Paramount and are designed to make sure that all applicable environmental laws, regulations and standards are complied with. The Company will monitor all activities and make reasonable efforts to ensure that companies who provide services to Paramount will operate in a manner consistent with its environmental policy.

#### **Human Resources**

At January 1, 1997, Paramount had 47 full time head office employees and 36 full time employees at field locations. The Company's compensation of full time employees includes a combination of salary, benefits, participation in either a share appreciation rights plan or a Company-assisted share purchase savings plan.

**Land**

The following table sets forth Paramount's land position at December 31, 1996. The total Company holdings are 2,288,162 gross acres (1,464,311 net). Approximately 31 per cent of the Company's gross lands are deemed productive and 69 per cent are considered undeveloped.

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| 1996                      |         |         | 1995    |         | 1994    |         | 1993    |         | 1992    |       |
|---------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|
| (thousands of acres)      | Gross   | Net     | Gross   | Net     | Gross   | Net     | Gross   | Net     | Gross   | Net   |
| Undeveloped land          |         |         |         |         |         |         |         |         |         |       |
| Alberta                   | 1,175.4 | 786.0   | 1,150.9 | 703.6   | 1,174.8 | 697.5   | 816.3   | 548.3   | 579.5   | 386.1 |
| British Columbia          | 64.0    | 35.6    | 48.2    | 33.0    | 43.4    | 34.3    | 68.8    | 58.1    | 70.9    | 59.2  |
| Saskatchewan              | 100.1   | 17.4    | 2.5     | 0.6     | —       | —       | —       | —       | —       | —     |
| Northwest Territories     | 239.6   | 93.4    | 122.8   | 105.6   | 122.8   | 105.6   | 50.9    | 32.7    | 38.2    | 25.9  |
| Subtotal                  | 1,579.1 | 932.4   | 1,324.4 | 842.8   | 1,341.0 | 837.4   | 936.0   | 639.2   | 688.7   | 471.1 |
| Acreage assigned reserves |         |         |         |         |         |         |         |         |         |       |
| Alberta                   | 652.5   | 485.3   | 962.8   | 579.3   | 904.7   | 563.7   | 888.6   | 556.1   | 685.6   | 405.4 |
| British Columbia          | 4.4     | 2.2     | 5.3     | 3.1     | 2.0     | 1.1     | 1.3     | 0.6     | 1.3     | 0.6   |
| Saskatchewan              | 1.9     | 0.4     | 0.5     | 0.1     | 3.5     | 0.7     | 3.5     | 0.7     | 3.5     | 0.7   |
| Northwest Territories     | 50.3    | 44.0    | 50.3    | 44.0    | 50.3    | 44.0    | 46.3    | 40.9    | 58.9    | 40.8  |
| Subtotal                  | 709.1   | 531.9   | 1,018.9 | 626.5   | 960.5   | 609.5   | 939.8   | 598.3   | 749.4   | 447.5 |
| Total acres               | 2,288.2 | 1,464.3 | 2,343.3 | 1,469.3 | 2,301.5 | 1,446.9 | 1,875.8 | 1,237.5 | 1,438.1 | 918.6 |

**Drilling Activity**

This table analyzes the results of Paramount's drilling activity over the last five years.

| 1996              |       |      | 1995  |      | 1994  |      | 1993  |      | 1992  |      |
|-------------------|-------|------|-------|------|-------|------|-------|------|-------|------|
|                   | Gross | Net  | Gross | Net  | Gross | Net  | Gross | Net  | Gross | Net  |
| Development wells |       |      |       |      |       |      |       |      |       |      |
| Gas*              | 49.0  | 20.3 | 67.0  | 31.1 | 66.0  | 38.0 | 21.0  | 16.3 | 10.0  | 6.0  |
| Oil               | 14.0  | 3.6  | 4.0   | 4.0  | 5.0   | 4.8  | —     | —    | —     | —    |
| Standing/service  | 1.0   | 0.5  | —     | —    | —     | —    | —     | —    | —     | —    |
| Dry               | 3.0   | 2.0  | 5.0   | 2.4  | 5.0   | 3.1  | 2.0   | 1.5  | —     | —    |
| Subtotal          | 67.0  | 26.4 | 76.0  | 37.5 | 76.0  | 45.9 | 23.0  | 17.8 | 10.0  | 6.0  |
| Exploration wells |       |      |       |      |       |      |       |      |       |      |
| Gas*              | 28.0  | 15.7 | 34.0  | 17.0 | 15.0  | 12.7 | 13.0  | 9.3  | 8.0   | 6.2  |
| Oil               | 3.0   | 0.9  | 3.0   | 2.2  | 2.0   | 2.0  | 4.0   | 4.0  | —     | —    |
| Oil/Gas           | —     | —    | —     | —    | 1.0   | 1.0  | 1.0   | 1.0  | —     | —    |
| Standing/service  | 2.0   | 0.5  | —     | —    | —     | —    | —     | —    | —     | —    |
| Dry               | 7.0   | 1.5  | 3.0   | 2.0  | 5.0   | 4.0  | 5.0   | 4.5  | 5.0   | 3.5  |
| Subtotal          | 40.0  | 18.6 | 40.0  | 21.2 | 23.0  | 19.7 | 23.0  | 18.8 | 13.0  | 9.7  |
| Total wells       | 107.0 | 45.0 | 116.0 | 58.7 | 99.0  | 65.6 | 46.0  | 36.6 | 23.0  | 15.7 |

\*Includes 1995 wells previously classed as standing.

**Oil and Natural Gas Wells**

Paramount had the following interests, as at December 31, 1996, in producing oil and natural gas wells and non-producing wells capable of production. All of the Company's wells capable of production are located in Canada.

|                                                | PRODUCING  |              | NON-PRODUCING |              |
|------------------------------------------------|------------|--------------|---------------|--------------|
|                                                | Gross      | Net          | Gross         | Net          |
| <b>Crude oil wells</b>                         |            |              |               |              |
| Alberta                                        | 32         | 13.4         | 25            | 11.0         |
| British Columbia                               | 1          | 0.6          | 0             | 0.0          |
| Saskatchewan                                   | 10         | 2.1          | 4             | 0.7          |
| Northwest Territories                          | —          | —            | 9             | 7.9          |
| Subtotal                                       | 43         | 16.1         | 38            | 19.6         |
| <b>Crude oil and gas wells</b>                 |            |              |               |              |
| Alberta                                        | 1          | 0.2          | —             | —            |
| British Columbia                               | —          | —            | —             | —            |
| Saskatchewan                                   | —          | —            | —             | —            |
| Northwest Territories                          | —          | —            | 1             | 0.9          |
| Subtotal                                       | 1          | 0.2          | 1             | 0.9          |
| <b>Natural gas wells</b>                       |            |              |               |              |
| Alberta                                        | 284        | 209.4        | 331           | 236.8        |
| British Columbia                               | 1          | 0.6          | 10            | 5.7          |
| Saskatchewan                                   | 3          | 0.7          | 3             | 0.7          |
| Northwest Territories                          | —          | —            | 10            | 8.1          |
| Subtotal                                       | 288        | 210.7        | 354           | 251.3        |
| <b>Total</b>                                   | <b>332</b> | <b>227.0</b> | <b>393</b>    | <b>271.8</b> |
|                                                | Gross      | Net          |               |              |
| <b>Total Producing and Non-Producing Wells</b> | <b>725</b> | <b>498.8</b> |               |              |



**Reserves**

Paramount's reserves of crude oil, natural gas liquids, and natural gas are located in Canada. A five-year review of reserves is outlined in the following tables. The reserves of Paramount are determined through engineering evaluations completed by McDaniel & Associates Consultants Ltd. of Calgary, Alberta.

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| <i>Natural gas reserves (Bcf)</i>              | 1996     | 1995    | 1994    | 1993    | 1992  |
|------------------------------------------------|----------|---------|---------|---------|-------|
| Gross before royalties                         |          |         |         |         |       |
| Proven producing                               | 190.6    | 195.9   | 211.1   | 173.4   | 176.7 |
| Proven shut-in                                 | 155.2    | 149.4   | 122.5   | 149.8   | 121.5 |
| Subtotal                                       | 345.8    | 345.3   | 333.6   | 323.2   | 298.2 |
| Probable additional                            | 130.6    | 103.0   | 101.6   | 91.4    | 92.1  |
| Total                                          | 476.4    | 448.3   | 435.2   | 414.6   | 390.3 |
| Net after royalties                            |          |         |         |         |       |
| Proven producing                               | 147.6    | 149.2   | 159.2   | 127.9   | 131.0 |
| Proven shut-in                                 | 134.4    | 128.9   | 108.5   | 127.3   | 105.8 |
| Subtotal                                       | 282.0    | 278.1   | 267.7   | 255.2   | 236.8 |
| Probable additional                            | 106.4    | 85.2    | 83.9    | 76.7    | 76.2  |
| Total                                          | 388.4    | 363.3   | 351.6   | 331.9   | 313.0 |
| <i>Crude oil &amp; liquids reserves (MBbl)</i> |          |         |         |         |       |
| Gross before royalties                         |          |         |         |         |       |
| Proven producing                               | 5,089.8  | 2,895.6 | 887.9   | 227.6   | 73.6  |
| Proven shut-in                                 | 484.3    | 199.1   | 189.6   | 151.8   | 125.6 |
| Subtotal                                       | 5,574.1  | 3,094.7 | 1,077.5 | 379.4   | 199.2 |
| Probable additional                            | 5,088.0  | 3,490.0 | 1,086.5 | 796.6   | 739.7 |
| Total                                          | 10,662.1 | 6,584.7 | 2,164.0 | 1,176.0 | 938.9 |
| Net after royalties                            |          |         |         |         |       |
| Proven producing                               | 3,991.1  | 2,295.0 | 678.8   | 203.0   | 59.2  |
| Proven shut-in                                 | 348.8    | 142.3   | 161.1   | 94.9    | 78.7  |
| Subtotal                                       | 4,339.9  | 2,437.3 | 839.9   | 297.9   | 137.9 |
| Probable additional                            | 4,022.1  | 2,923.5 | 1,008.7 | 755.1   | 689.5 |
| Total                                          | 8,362.0  | 5,360.8 | 1,848.6 | 1,053.0 | 827.4 |

**Reserve Reconciliation**

The following table outlines the natural gas reserve reconciliation for Paramount over the past five years.

| <i>Natural gas reserves (Bcf)</i> | 1996   | 1995   | 1994   | 1993   | 1992   |
|-----------------------------------|--------|--------|--------|--------|--------|
| Opening balance                   | 448.3  | 435.2  | 414.6  | 390.3  | 292.0  |
| Reserves added through            |        |        |        |        |        |
| amalgamation                      | —      | —      | —      | —      | 46.7   |
| Revisions of previous estimates   | 13.9   | 15.5   | 9.8    | (18.8) | 42.1   |
| Extensions and discoveries        | 56.0   | 42.3   | 40.6   | 42.2   | 39.6   |
| Acquisitions of gas in place      | 76.8   | 15.9   | 17.8   | 35.0   | 4.9    |
| Dispositions of gas in place      | (71.9) | (12.6) | (7.6)  | —      | (2.9)  |
| Production estimate               | (46.7) | (48.0) | (40.0) | (34.1) | (32.1) |
| Closing balance                   | 476.4  | 448.3  | 435.2  | 414.6  | 390.3  |

The table below highlights the detailed proven and probable reserve reconciliation for 1996 for natural gas and crude oil and natural gas liquids.

| <i>Natural gas reserves (Bcf)</i>          | Proven  | Probable | Total    |
|--------------------------------------------|---------|----------|----------|
| Balance at December 31, 1995               | 345.4   | 102.9    | 448.3    |
| Revisions of previous estimates            | 18.2    | (4.3)    | 13.9     |
| Extensions and discoveries                 | 37.1    | 18.9     | 56.0     |
| Acquisitions of gas in place               | 52.6    | 24.2     | 76.8     |
| Dispositions of gas in place               | (60.8)  | (11.1)   | (71.9)   |
| Production estimate                        | (46.7)  | —        | (46.7)   |
| Balance at December 31, 1996               | 345.8   | 130.6    | 476.4    |
| <i>Crude oil and liquids (MBbl)</i>        | Proven  | Probable | Total    |
| Balance at December 31, 1995               | 3,095.0 | 3,490.0  | 6,585.0  |
| Revisions of previous estimates            | 553.0   | 263.6    | 816.6    |
| Extensions and discoveries                 | 2,573.7 | 1,544.7  | 4,118.4  |
| Acquisitions of crude oil/liquids in place | 106.0   | 51.0     | 157.0    |
| Dispositions of crude oil/liquids in place | (308.7) | (261.2)  | (569.9)  |
| Production estimate                        | (445.0) | —        | (445.0)  |
| Balance at December 31, 1996               | 5,574.0 | 5,088.1  | 10,662.1 |

### Operations

The table below is a production summary and is followed by a description of the major producing properties of the Company.

#### Major Producing Properties – Production

| <i>Natural gas (MMcf/d)</i>          | 1996  | 1995  | 1994  | 1993               | 1992 |
|--------------------------------------|-------|-------|-------|--------------------|------|
| Legend                               | 11.8  | 12.9  | 12.5  | 12.6               | 11.5 |
| North Liege                          | 11.0  | 13.7  | 15.4  | 19.5               | 18.9 |
| Liege                                | 9.2   | 11.5  | 12.6  | 15.1               | 10.4 |
| South Liege                          | —     | 2.4   | 3.0   | 6.6                | 11.5 |
| East Liege                           | 1.3   | —     | —     | —                  | —    |
| Chip Lake                            | 5.2   | 7.4   | 7.6   | 6.6 <sup>(1)</sup> | —    |
| Chip West                            | 2.7   | 3.8   | 2.8   | 1.1 <sup>(1)</sup> | —    |
| Blanchett                            | 2.3   | 2.7   | 1.8   | 1.6 <sup>(1)</sup> | —    |
| Saleski I & II                       | 9.0   | 9.2   | 8.7   | 7.9                | 4.6  |
| Quigley                              | 6.5   | 7.1   | 8.0   | 8.2                | 7.4  |
| Kettle River                         | 15.6  | 16.7  | 17.0  | 16.4               | 10.7 |
| Chard                                | 4.8   | 5.5   | 5.6   | 6.8                | 7.9  |
| Leismer                              | 1.5   | 1.9   | 0.4   | —                  | —    |
| Corner                               | 20.0  | 19.1  | 6.2   | —                  | —    |
| Kaybob                               | 11.3  | 13.8  | 8.7   | —                  | —    |
| Kaybob Non-op                        | 3.3   | —     | —     | —                  | —    |
| South Leismer                        | 3.8   | 2.0   | —     | —                  | —    |
| Amisk                                | —     | —     | 1.5   | 1.9                | 3.6  |
| Other                                | 7.8   | 5.3   | 4.3   | 1.9                | 0.7  |
| Total                                | 127.1 | 135.0 | 116.1 | 106.2              | 87.2 |
| <i>Crude oil and Liquids (Bbl/d)</i> |       |       |       |                    |      |
| Total                                | 1,517 | 807   | 313   | 160                | 61   |

<sup>(1)</sup> Average production for last two months of 1993.

### **Major Producing Properties – Description**

The following is a description of Paramount's major producing properties as of December 31, 1996. The majority of these properties are in northeastern Alberta and produce natural gas from the shallow, high deliverability natural gas reserves whose discovery and development has been the focus of the Company's corporate strategy since its inception in 1978. Included in the description this year are two of the Company's properties which produce crude oil and natural gas liquids and the property from which the Company's first production from British Columbia has been realized.

Consequent to the Company's acquisition/divestiture program of 1996, Paramount no longer holds any interests in the following properties previously classified as major producing properties: Liege, Chip Lake, Chip West and Blanchett. These properties are all located in northeastern Alberta where the Company was able to increase its other interests in major producing areas located in the same trend as part of its asset management activity.

Although not described herein, these properties are still contained in the major producing properties production summary as the Company received revenue from this production up to September 30, 1996.

#### **LEGEND**

Paramount has an interest in 92,160 (41,121 net) acres of land at Legend with 39 (17.1 net) producing natural gas wells and 13 (6.0 net) non-producing wells. Paramount has a 44.5 per cent working interest in the Company-operated Legend gas plant with a present production capacity of 27.4 MMcf/d. There are 68.7 miles of pipeline tied into this facility. The Company also has an effective 1.0 per cent gross overriding royalty on 8 wells and an effective 4.4 per cent gross overriding royalty on a separate 9 wells.

#### **NORTH LIEGE**

Paramount has an interest in 69,670 (63,335 net) acres of land at North Liege with 18 (17.3 net) producing natural gas wells and 25 (20.3 net) non-producing wells. Paramount has a 94.6 per cent working interest in the Company-operated plant which has a capacity of 13.2 MMcf/d. There are 29.7 miles of pipeline gathered to this facility.

#### **EAST LIEGE**

The acreage that Paramount retained when its interests at South Liege plant and gathering were sold effective December 1, 1995, is now called East Liege. The Company has an interest in 37,760 (32,437 net) acres in this area. There are 5 (4.9 net) gas wells producing through a pipeline to what was formerly Paramount's Liege plant; the Company is still processing its gas at the Liege plant. There are also 12 (11.8 net) non-producing gas wells on this property.

#### **SALESKI I AND SALESKI II**

Paramount has a working interest in 88,000 (79,933 net) acres of land with 19 (18.1 net) producing and 7 (6.2 net) non-producing natural gas wells. The Company has an effective 10.7 per cent gross overriding royalty on two other wells at Saleski. The two Company-operated gas plants at Saleski have a combined capacity of 10.0 MMcf/d of which Paramount has a combined working interest of 94.9 per cent. There are 35.9 miles of pipeline constructed at these plants.

#### **QUIGLEY**

Paramount has an interest in 53,120 (41,120 net) acres of land at Quigley with 24 (20.0 net) producing and 13 (10.25 net) non-producing natural gas wells. There are 24.2 miles of pipeline gathered to this 9.7 MMcf/d gas plant. Paramount has a 79.8 per cent working interest in this plant.

#### **KETTLE RIVER**

Paramount has an interest in 35,200 (32,865 net) acres of land at Kettle River with 33 (31.4 net) producing and 6 (5.1 net) non-producing wells. The Company also owns an effective 11.2 per cent gross overriding royalty on two of the 26 producing wells. The Company-operated gas plant at Kettle has a capacity of 20.7 MMcf/d of which Paramount has a 92.04 per cent working interest. There are 30.0 miles of gas pipeline associated with this plant.

**CHARD**

Paramount has an interest in 25,156 (19,381 net) acres of land at Chard. There are 24 (16.2 net) producing natural gas wells tied to this facility with a capacity net to Paramount of 6.2 MMcf/d (8.4 MMcf/d gross capacity). There are two (1.6 net) non-producing wells on the Chard property and 35.7 miles of gathering system. The Company also owns an effective 12.0 per cent gross overriding royalty on 9 of the 21 producing wells as well as an additional 4.3 per cent gross overriding royalty on two producing wells.

**LEISMER**

Paramount has an interest in 44,800 (35,936 net) acres and 25.4 miles of gathering system at Leismer. The plant capacity for 1996 was 9.8 MMcf/d of which Paramount has a 32.5 per cent working interest. There are 6 (3.9 net) producing natural gas wells and 14 (12.2 net) non-producing wells at Leismer.

**CORNER**

Paramount has an interest in 89,240 (89,240 net) acres of land at Corner with 40 (40.0 net) producing wells and 26 (26.0 net) non-producing wells. The Company-operated plant has a capacity of 31.6 MMcf/d. There are 50.1 miles of gathering to this plant of which Paramount has a 100 per cent working interest as of October 1, 1996.

**KAYBOB**

Paramount has an interest in 61,280 (60,479 net) acres of land at Kaybob with 14 (14.0 net) producing wells and 7 (7.0 net) non-producing wells. The Kaybob plant is located in central Alberta away from the Company's traditional shallow gas area. Kaybob produces natural gas from wells with higher reservoir pressures which are rich in natural gas liquids. Kaybob went on production in June 1994. The capacity of this Company-operated plant is 21.1 MMcf/d of which Paramount has a 89.7 per cent working interest. Natural gas is gathered to the plant through 38.9 miles of pipeline.

**SOUTH LEISMER**

South Leismer is located in the Company's traditional shallow gas area of northeastern Alberta. The Company has an interest in 123,200 (113,299 net) acres at South Leismer with 26 (26.0 net) producing wells and 40 (40.0 net) non-producing wells. Maximum capacity at the plant for 1996 was 11.0 MMcf/d of which Paramount has a 100 per cent working interest as of October 1, 1996. Production from South Leismer began in June 1995 with 57.3 miles of new pipeline supplying gas to the Company-operated plant.

**WEST KAYBOB**

Paramount has an interest in 11,840 (11,840 net) acres at Kaybob West. In 1996 a central battery and gathering system was built to bring 6 (6 net) oil wells on production. There are 3 (3 net) non-producing oil wells and 3 (3 net) capped gas wells. Paramount's net production from this area for oil and natural gas liquids totals 374 Bbl/d for 1996.

**MIDALE**

The Company has an interest in 12,891 (2,840 net) acres in this non-operated area in Saskatchewan. There are 10 oil wells producing to a temporary facility in the area. A battery will be constructed at Midale in 1997. There are 3 (0.5 net) non-producing oil wells at Midale. Net production to Paramount from this area was 311 Bbl/d in 1996.

**LAPP/ZAREMBA**

Paramount has an interest in 17,781 (10,595 net) acres in the Zarembo area of British Columbia. This is a new producing area for the Company with the tie-in of one (0.6 net) producing gas well to an outside-operated gas plant with three miles of pipeline, and one (0.6 net) producing oil well. There are 4 (2.4 net) non-producing gas wells at Zarembo.

The production net to Paramount from this area in 1996 (production began in June 1996) was 331 MMcf of natural gas and 5,203 barrels of crude oil.



**Selected Summary Financial and Operating Information**

| FINANCIAL                                                 |               | Year Ended December 31, |               |               |               |
|-----------------------------------------------------------|---------------|-------------------------|---------------|---------------|---------------|
| (\$ millions except per share amounts) <sup>(1)</sup>     | 1996          | 1995                    | 1994          | 1993          | 1992          |
| <b>Revenues</b>                                           |               |                         |               |               |               |
| Oil and gas revenues<br>(before royalties)                | 100.644       | 69.887                  | 72.293        | 64.509        | 39.432        |
| <b>Expenses</b>                                           |               |                         |               |               |               |
| Royalties                                                 | 9.258         | 8.755                   | 12.940        | 11.780        | 7.456         |
| Operating                                                 | 16.196        | 14.624                  | 13.658        | 9.596         | 6.022         |
| Interest                                                  | 6.382         | 7.185                   | 5.873         | 3.273         | 3.763         |
| General and administrative                                | 5.972         | 3.642                   | 4.328         | 4.732         | 3.485         |
| Depreciation and depletion                                | 23.760        | 24.969                  | 16.225        | 13.049        | 9.260         |
| Dry hole costs                                            | 2.565         | 2.150                   | 3.432         | 3.272         | 3.119         |
| <b>Net earnings</b>                                       | <b>25.462</b> | <b>5.622</b>            | <b>11.504</b> | <b>12.982</b> | <b>2.821</b>  |
| Per share                                                 | 1.59          | 0.35                    | 0.73          | 0.88          | 0.20          |
| Funds provided by operations                              | 63.107        | 35.313                  | 35.213        | 35.076        | 19.275        |
| Per share                                                 | 3.95          | 2.22                    | 2.23          | 2.37          | 1.36          |
| <b>Capital expenditures (gross)</b>                       | <b>90.211</b> | <b>48.880</b>           | <b>85.274</b> | <b>71.688</b> | <b>13.407</b> |
| Proceeds of property/<br>equipment sales                  | 27.084        | 1.261                   | 31.404        | 1.188         | 0.678         |
| <b>Balance sheet information</b>                          |               |                         |               |               |               |
| Working capital (deficiency)                              | (16.950)      | (0.399)                 | 4.650         | 0.526         | (2.777)       |
| Total assets                                              | 306.463       | 245.342                 | 256.668       | 188.446       | 110.202       |
| Long-term operating bank debt                             | 63.046        | 86.111                  | 84.563        | 57.006        | 43.818        |
| Per share                                                 | 3.94          | 5.42                    | 5.35          | 3.86          | 3.09          |
| Shareholders' equity                                      | 120.734       | 88.427                  | 84.395        | 73.684        | 33.782        |
| Per share                                                 | 7.36          | 5.56                    | 5.34          | 4.98          | 2.38          |
| Dividends paid                                            | 1.590         | 1.590                   | 1.590         | 1.572         | 1.426         |
| Per share                                                 | 0.10          | 0.10                    | 0.10          | 0.10          | 0.10          |
| <b>Share information</b>                                  |               |                         |               |               |               |
| Average number of common<br>shares outstanding (millions) | 15.979        | 15.901                  | 15.820        | 14.782        | 14.187        |
| Market price (\$)                                         |               |                         |               |               |               |
| High                                                      | 27.00         | 16.00                   | 23.50         | 26.38         | 11.00         |
| Low                                                       | 13.00         | 11.50                   | 12.50         | 10.50         | 5.00          |
| <b>OPERATING</b>                                          |               |                         |               |               |               |
| <b>Reserves (proven and probable)</b>                     |               |                         |               |               |               |
| Natural gas (Bcf)                                         | 476           | 448                     | 435           | 415           | 390           |
| Crude oil and liquids (MBbl)                              | 10,662        | 6,585                   | 2,164         | 1,176         | 939           |
| <b>Land holdings (000's acres)</b>                        |               |                         |               |               |               |
| Gross                                                     | 2,288         | 2,343                   | 2,302         | 1,876         | 1,438         |
| Net                                                       | 1,464         | 1,469                   | 1,447         | 1,238         | 919           |
| <b>Production</b>                                         |               |                         |               |               |               |
| Natural gas (MMcf/d)                                      | 127.1         | 135.0                   | 116.1         | 98.7          | 87.22         |
| Average natural gas price (\$/Mcf)                        | 1.84          | 1.30                    | 1.66          | 1.72          | 1.23          |
| Crude oil and liquids (Bbls/d)                            | 1,517         | 807                     | 313           | 161           | 61            |
| Average crude oil price (\$/Bbl)                          | 27.91         | 20.66                   | 16.04         | 20.14         | 21.13         |
| <b>Drilling activity</b>                                  |               |                         |               |               |               |
| Gas wells                                                 | 78            | 101                     | 81            | 34            | 18            |
| Oil wells                                                 | 17            | 7                       | 7             | 4             | —             |
| Gas/oil wells                                             | —             | —                       | 1             | 1             | —             |
| Dry and abandoned                                         | 11            | 8                       | 10            | 7             | 5             |
| <b>Total</b>                                              | <b>106</b>    | <b>116</b>              | <b>99</b>     | <b>46</b>     | <b>23</b>     |
| Success rate (%)                                          | 90            | 93                      | 90            | 85            | 78            |
| <b>Number of employees</b>                                |               |                         |               |               |               |
| Office                                                    | 47            | 48                      | 44            | 41            | 35            |
| Field                                                     | 36            | 58                      | 56            | 37            | 37            |
| <b>Total</b>                                              | <b>83</b>     | <b>106</b>              | <b>100</b>    | <b>78</b>     | <b>72</b>     |

<sup>(1)</sup> All per share amounts are calculated using average number of shares outstanding, except dividends paid per share which are based upon actual shares outstanding at time of dividend declaration.

**Three Year Quarterly Summary**

| (\$ millions except per share amounts) |             | CASH FLOW |           | NET EARNINGS |           |
|----------------------------------------|-------------|-----------|-----------|--------------|-----------|
| Three Months Ended                     | Net Revenue | Total     | Per Share | Total        | Per Share |
| March 31, 1994                         | 15.824      | 7.725     | 0.49      | 2.932        | 0.19      |
| June 30, 1994                          | 15.075      | 10.373    | 0.65      | 3.381        | 0.21      |
| September 30, 1994                     | 15.072      | 9.488     | 0.60      | 3.300        | 0.21      |
| December 31, 1994                      | 15.239      | 7.627     | 0.49      | 1.891        | 0.12      |
| March 31, 1995                         | 15.112      | 8.047     | 0.51      | 0.712        | 0.05      |
| June 30, 1995                          | 15.523      | 9.485     | 0.59      | 2.046        | 0.12      |
| September 30, 1995                     | 15.504      | 8.745     | 0.55      | 2.756        | 0.18      |
| December 31, 1995                      | 17.009      | 9.036     | 0.57      | 0.108        | —         |
| March 31, 1996                         | 20.696      | 13.775    | 0.87      | 4.231        | 0.27      |
| June 30, 1996                          | 21.565      | 14.762    | 0.93      | 4.597        | 0.29      |
| September 30, 1996                     | 22.523      | 15.331    | 0.96      | 6.092        | 0.38      |
| December 31, 1996                      | 28.430      | 19.239    | 1.19      | 10.542       | 0.65      |

**Dividend Policy**

Paramount has paid a cash dividend every year for the last five years. The following table summarizes the Company's record of dividend payments.

| Dividends Paid   | 1996     | 1995     | 1994     | 1993     | 1992     |
|------------------|----------|----------|----------|----------|----------|
| Per share        | \$ 0.10  | \$ 0.10  | \$ 0.10  | \$ 0.10  | \$ 0.10  |
| Total (millions) | \$ 1.590 | \$ 1.590 | \$ 1.590 | \$ 1.572 | \$ 1.426 |

**Results of Operations**

See the Company's Management's Discussion and Analysis relating to the audited financial statements for the fiscal years ended December 31, 1996 and 1995, which form part of this Annual Report.

**Market for Securities**

The common shares of Paramount Resources Ltd. are listed and posted for trading on The Toronto Stock Exchange under the trading symbol 'POU'.

**Additional Information**

Additional information, including directors' and officers' remuneration, principal holders of Paramount Resources Ltd. securities and options to purchase securities, is contained in Paramount's Information Circular dated March 20, 1997, which relates to the Annual and Special Meeting of Shareholders to be held May 15, 1997.

Additional financial information is contained in the Company's comparative financial statements for the year ended December 31, 1996.

For additional copies of this Annual Report and the materials listed in the preceding paragraphs, please contact:

G. Barry Padley, C. A.  
Chief Financial Officer

**internal  
commentary:**  
Supplement to the  
1996 Annual Report  
(April 1997)

# analyst's handbook

## Purpose

This Handbook has been prepared by Paramount Resources Ltd. to address the special information needs of the investment community and the sophisticated investor. The Handbook provides detailed performance data and key ratios. For additional information please contact:

C.H. (Clay) Riddell, President

G.B. (Barry) Padley, Chief Financial Officer

J.H.T. (Jim) Riddell, Exploration Manager

Telephone: (403) 266-2047

Facsimile: (403) 262-7994

## Corporate Profile

Paramount Resources Ltd. explores for, develops, transports and markets natural gas and crude oil/liquids. Since its incorporation on February 14, 1978, the Company has maintained year over year growth in gas sales to now be a major producer of natural gas in northeastern Alberta. Paramount has an aggressive, focused exploration and development strategy, concentrated on acquiring land and establishing reserves of shallow gas.

- 19 years old
- 83 employees (47 head office, 36 field)
- The Toronto Stock Exchange
- Legal for Life
- 16.4 million shares outstanding
- Market Capitalization: \$410 million (Dec. 31/96)

| Year    | Cash Flow        | Per Share               | Earnings        | Per Share |
|---------|------------------|-------------------------|-----------------|-----------|
| 1995    | \$ 35.3 million  | \$ 2.22                 | \$ 5.6 million  | \$ 0.35   |
| 1996    | \$ 63.1 million  | \$ 3.95                 | \$ 25.5 million | \$ 1.59   |
| 1997Est | \$ 70-80 million | \$ 4.25 to \$5.00/share |                 |           |

## What is different about Paramount?

- Niche is gas in northeastern Alberta
- "A Pure Gas Play"  
85% of revenue from natural gas sales
- 81% of gas sales exported into the United States
- "Successful Efforts" accounting policy  
- conservative cash flow and net earnings
- High management ownership (57%)
- Paramount creates its shareholder value with the drill bit - an explorer versus an acquirer
- Exposure to rank wildcat exploration plays at Midale, Puskwa, Maxhamish, Bovie Lake and Cameron Hills

## Niche

Traditionally, major producer of natural gas in north-eastern Alberta. Shallow Gas - high deliverability, low pressure, low environmental risk. 1996 was a year of significant asset rationalization. Paramount has now diversified into NE B.C., SE Saskatchewan, NW Alberta, and Liard, N.W.T.

## Consolidated Earnings & Cash Flow Data

(\$ millions except per share amounts)

| Years Ended December 31   | 1996    | 1995    | Change |
|---------------------------|---------|---------|--------|
| <b>Revenue</b>            |         |         |        |
| Natural Gas Sales         | \$ 85.2 | \$ 63.8 | 34%    |
| Crude Oil & Liquid Sales  | 15.5    | 6.1     | 154%   |
| Net Royalties, incl. ARTC | (7.8)   | (7.3)   | 7%     |
| Other                     | 0.3     | 0.6     | (50%)  |
| Net Revenue               | 93.2    | 63.2    | 48%    |

## Expenses

|                        |         |         |       |
|------------------------|---------|---------|-------|
| Operating              | 16.2    | 14.6    | 11%   |
| Interest               | 6.4     | 7.2     | (11%) |
| General & Admin. (G&A) | 6.0     | 3.6     | 67%   |
| Lease Rentals          | 1.9     | 1.9     | —%    |
| Current Taxes/LCT      | 0.6     | 0.4     | 50%   |
| Dry Hole Costs         | 2.5     | 2.1     | 19%   |
| Geological Geophysical | 2.9     | 2.9     | —%    |
| Site Restoration       | 0.5     | 0.2     | 150%  |
| Dep., Depl. & Amort.   | 23.8    | 25.0    | (5%)  |
| Other (Income) net     | (4.0)   | —       | —%    |
| Deferred Taxes         | 10.9    | (0.5)   | —%    |
| Net Earnings           | 25.5    | \$ 5.6  | 354%  |
| Net Earnings Per Share | \$ 1.59 | \$ 0.35 | 354%  |

## Cash Flow Reconciliation

|                              |         |         |     |
|------------------------------|---------|---------|-----|
| <b>Oil &amp; Gas Revenue</b> |         |         |     |
| Net of Royalty               | \$ 93.2 | \$ 63.2 |     |
| <b>Less Expenses</b>         |         |         |     |
| Operating                    | \$ 16.2 | 14.6    |     |
| Interest                     | 6.4     | 7.2     |     |
| Capitalized                  | 0.0     | 0.0     |     |
| G & A                        | 5.0     | 3.6     |     |
| Capitalized                  | 0.0     | 0.0     |     |
| Lease Rentals                | 1.9     | 1.9     |     |
| Current & Large Corp. Taxes  | 0.6     | 0.4     |     |
| Cash Flow                    | \$ 63.1 | \$ 35.3 | 79% |
| Cash Flow Per Share          | \$ 3.95 | \$ 2.22 | 78% |
| <b>Cash Flow as a % of</b>   |         |         |     |
| Net Revenue                  | 68%     | 56%     | 21% |

## Balance Sheet Information

| (\$ millions) As at December 31 | 1996     | 1995     | Change |
|---------------------------------|----------|----------|--------|
| <b>Assets</b>                   |          |          |        |
| Current Assets                  | \$ 52.4  | \$ 31.0  | 69%    |
| Properties & Equipment (net)    | 250.1    | 207.7    | 20%    |
| Other                           | 4.0      | 6.6      | (39%)  |
|                                 | \$ 306.5 | \$ 245.3 | 25%    |
| <b>Liabilities</b>              |          |          |        |
| Current Liabilities             | \$ 69.3  | \$ 31.4  | 120%   |
| Bank Loans - Operating          | 63.1     | 86.1     | (27%)  |
| Deferred Revenue/Other          | 9.6      | 8.5      | 13%    |
| Deferred Taxes                  | 43.8     | 30.9     | 42%    |
| Shareholders' Equity            | 120.7    | 88.4     | 37%    |
|                                 | \$ 306.5 | \$ 245.3 | 25%    |

## Net Appraised Asset Value Per Common Share

| (\$ millions except per share amount)                          |          |          |          |
|----------------------------------------------------------------|----------|----------|----------|
| Discount rate at December 31, 1996                             | 10%      | 15%      | 20%      |
| Present value of net oil and gas reserves <sup>1,2</sup>       | \$ 459.8 | \$ 367.0 | \$ 305.0 |
| Appraised value of undeveloped acreage                         | 42.1     | 42.1     | 42.1     |
| <b>Subtotal</b>                                                | 501.9    | 409.1    | 347.1    |
| Less working capital deficiency                                | 17.0     | 17.0     | 17.0     |
| Less operating long-term debt                                  | 63.1     | 63.1     | 63.1     |
| <b>Net appraised asset value</b>                               | \$ 421.8 | \$ 329.0 | \$ 267.0 |
| <b>Net appraised asset value per common share <sup>3</sup></b> | \$ 25.72 | \$ 20.06 | \$ 16.28 |

<sup>1</sup> Includes benefit of ARTC with no allowance for income tax

<sup>2</sup> Based upon Escalating Price Assumptions

<sup>3</sup> Based upon outstanding common shares 16,401,200 at Dec. 31, 1996

## Present Value of Estimated Pre-Tax Cash Flow Expected During Economic Life of All Reserves

| Reserves Before Royalty | Present Value of Estimated<br>Pre-Tax Cash Flow Discounted at: |              |          |          |          |
|-------------------------|----------------------------------------------------------------|--------------|----------|----------|----------|
|                         | Oil/Liquids<br>(MBbl)                                          | Gas<br>(Bcf) | 10%      | 15%      | 20%      |
| Proven                  | 5,574                                                          | 345.8        | \$ 327.0 | \$ 270.5 | \$ 231.4 |
| Probable                | 5,088                                                          | 130.6        | 132.8    | 96.5     | 73.6     |
| Total                   | 10,662                                                         | 476.4        | \$ 459.8 | \$ 367.0 | \$ 305.0 |

The discounted future net revenue values are based on estimates using only escalating price assumptions at rates of 10%, 15% and 20% per annum compounded annually and are calculated prior to the consideration of income taxes but include ARTC, and are not to be construed as representing the fair market value of properties because the fair market value of the properties and such net revenues will depend upon the subjective considerations of a particular purchaser.

## Appraised Value of Undeveloped Acreage

| (000s)                                     | Gross Acres    | Net Acres |
|--------------------------------------------|----------------|-----------|
| Alberta                                    | 1,175          | 786       |
| British Columbia                           | 64             | 36        |
| Saskatchewan                               | 100            | 17        |
| Northwest Territories                      | 240            | 93        |
| Total undeveloped acreage                  | 1,579          | 932       |
| Appraised value of undeveloped net acreage | \$42.1 million |           |

Appraised value is an estimate of the fair market value of acreage based upon current analogous sales. Approximately 64% of the total net 1996 land inventory of 1,464,000 is undeveloped.

## Selective Balance Sheet Information

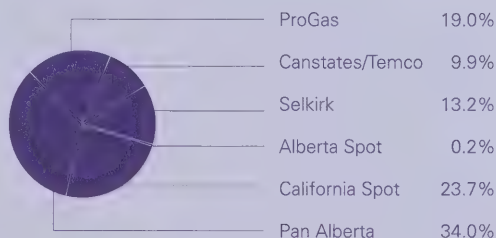
| At December 31, 1996 (000s)    |           |
|--------------------------------|-----------|
| Current assets                 | \$ 52,382 |
| Less current liabilities       | 69,332    |
| Working capital deficiency     | 16,950    |
| Long-term operating bank loans | 63,046    |
| <b>Net debt</b>                | \$ 79,996 |

## Gas Sales & Markets (MMcf/d)

|                                         | 1996 | 1995 |
|-----------------------------------------|------|------|
| Pan Alberta                             | 43   | 43   |
| ProGas                                  | 24   | 26   |
| Canstates/Temco                         | 13   | 12   |
| Selkirk                                 | 17   | 23   |
| California and Alberta spot             | 30   | 31   |
| <b>Total sales</b>                      | 127  | 135  |
| Aggregators                             | 63%  | 60%  |
| Direct sales and uncommitted gas supply | 37%  | 40%  |
| Existing gas plants (January 1)         | 16   | 14   |
| Net new plants (sold)                   | (4)  | 1    |
| <b>Company-operated facilities</b>      | 12   | 15   |

## 1996 Natural Gas Contracts

127 MMcf/d





## Oil & Gas Sales and Gross Profit

### Oil & Gas Sales

This illustrates oil and gas sales since 1992 and converts the oil sales into gas equivalent (Mcf) on an industry standard basis of one barrel of crude oil/liquids equals 10 Mcf of natural gas.

| Fiscal Year¹ | Oil & Gas Revenue |         | Gas Prod. |       | Oil & Liquids Prod. |       | Average Price |       | Gas Equiv. Prod |        |
|--------------|-------------------|---------|-----------|-------|---------------------|-------|---------------|-------|-----------------|--------|
|              | Revenue           | Revenue | Gas       | Gas   | Oil                 | Oil   | Gas           | Oil   | 1 Bbl=10 Mcf    | Gas Eq |
|              | (\$ 000s)         | Trend   | (MMcf)    | Trend | (bbls)              | Trend | (\$)          | (\$)  | MMcf            | Trend  |
| 1992         | 39,432            | 100     | 31,838    | 100   | 22,309              | 100   | 1.23          | 21.13 | 32,139          | 100    |
| 1993         | 64,509            | 164     | 36,035    | 113   | 58,777              | 263   | 1.72          | 20.14 | 39,347          | 122    |
| 1994         | 72,293            | 183     | 42,377    | 133   | 114,245             | 512   | 1.66          | 16.04 | 43,520          | 135    |
| 1995         | 69,887            | 177     | 49,275    | 155   | 294,650             | 1321  | 1.30          | 20.66 | 52,221          | 162    |
| 1996         | 100,644           | 255     | 46,392    | 146   | 553,605             | 2482  | 1.84          | 27.91 | 51,924          | 162    |

### Operating Cash Netbacks

| Fiscal Year¹ | Royalties<br>(net ARTC) |        |       | Operating<br>Cost |        |       | Operating<br>Cash Netback |        | Operating<br>Cash Netback |       |
|--------------|-------------------------|--------|-------|-------------------|--------|-------|---------------------------|--------|---------------------------|-------|
|              | (\$ 000s)               | \$/Mcf | Trend | (\$ 000s)         | \$/Mcf | Trend | (\$ 000s)                 | \$/Mcf | %                         | Trend |
|              |                         |        |       |                   |        |       |                           |        |                           |       |
| 1992         | 5,733                   | 0.18   | 100   | 6,022             | 0.19   | 100   | 27,677                    | 0.86   | 70.2                      | 100   |
| 1993         | 9,977                   | 0.26   | 144   | 9,596             | 0.25   | 132   | 44,936                    | 1.13   | 69.7                      | 99    |
| 1994         | 11,635                  | 0.27   | 150   | 13,658            | 0.31   | 163   | 47,000                    | 1.08   | 65.0                      | 93    |
| 1995         | 7,280                   | 0.14   | 78    | 14,624            | 0.28   | 147   | 47,983                    | 0.92   | 69.0                      | 98    |
| 1996         | 7,763                   | 0.15   | 83    | 16,196            | 0.31   | 163   | 76,685                    | 1.48   | 76.2                      | 109   |

Cash Netback = Oil & Gas Revenue - Royalty - Operating Cost

¹Trend with base year 1992, with nominal value of 100

### Revenue/Expenses/Cash Flow Netback/Net Earnings - Per Mcfeq

The table calculates approximate revenue, expenses and net earnings converted into dollars per thousand cubic feet gas equivalents ( 1 Barrel equals 10 Mcf) (\$/Mcfq).

|                                                   | 1996    | 1995    | 1994    | 1993    | 1992    |
|---------------------------------------------------|---------|---------|---------|---------|---------|
| MMcfq                                             | 51,924  | 52,221  | 43,520  | 39,347  | 32,139  |
| Revenue \$/Mcfq                                   | \$ 1.94 | \$ 1.34 | \$ 1.66 | \$ 1.64 | \$ 1.23 |
| All royalty net A.R.T.C.                          | 0.15    | 0.14    | 0.27    | 0.26    | 0.18    |
| Operating costs                                   | 0.31    | 0.28    | 0.31    | 0.25    | 0.19    |
| Cash netback                                      | 1.48    | 0.92    | 1.08    | 1.13    | 0.86    |
| General and administrative<br>(less other income) | 0.09    | 0.06    | 0.09    | 0.10    | 0.10    |
| Interest on long-term debt                        | 0.12    | 0.14    | 0.14    | 0.08    | 0.12    |
| Lease rental and current/capital taxes            | 0.05    | 0.04    | 0.04    | 0.06    | 0.04    |
| Cash flow netback                                 | 1.22    | 0.68    | 0.81    | 0.89    | 0.60    |
| Depletion and depreciation                        | 0.46    | 0.48    | 0.37    | 0.33    | 0.29    |
| (Gain) on sale of properties                      | (0.07)  | —       | (0.24)  | (0.01)  | —       |
| Dry hole costs                                    | 0.05    | 0.04    | 0.08    | 0.08    | 0.10    |
| Geological and geophysical                        | 0.06    | 0.06    | 0.09    | 0.03    | 0.02    |
| Other (income) expense                            | 0.01    | —       | 0.03    | (0.03)  | 0.02    |
| Pretax earnings                                   | \$ 0.71 | \$ 0.10 | \$ 0.48 | \$ 0.49 | \$ 0.17 |
| All taxes current and deferred (recovery)         | 0.22    | (0.01)  | 0.22    | 0.16    | 0.08    |
| Net earnings                                      | \$ 0.49 | \$ 0.11 | \$ 0.26 | \$ 0.33 | \$ 0.09 |
| Net earnings trend with 1992 = 100                | 544     | 122     | 289     | 367     | 100     |

## Common Share Data

Shares of Paramount Resources Ltd. trade on The Toronto Stock Exchange under the symbol 'POU'.

| December 31                                     | 1996      | 1995      |
|-------------------------------------------------|-----------|-----------|
| Outstanding shares (000s)                       | 16,401    | 15,901    |
| Public float - shares (000s)                    | 6,900     | 6,900     |
| - % of total share                              | 43%       | 43%       |
| Trading volume (000s)                           | 3,100     | 962       |
| Trading volume as % of public float             | 50%       | 14%       |
| Trading value (\$ 000s)                         | \$ 50,642 | \$ 13,317 |
| Trading range                                   |           |           |
| High                                            | \$ 27.00  | \$ 16.00  |
| Low                                             | \$ 13.00  | \$ 11.50  |
| Close                                           | \$ 25.00  | \$ 13.875 |
| Weighted average trading price                  | \$ 16.34  | \$ 13.85  |
| Market capitalization at year end (\$ millions) | \$ 410.03 | \$ 220.63 |

Public Float is all outstanding shares less shares owned/controlled by officers/directors.

## Key Ratios

The accompanying section to the Cash Flow Reconciliation presents the key ratios to "fundamental analysis"

Cash Flow per Share  
Share Price to Cash Flow Multiple  
Debt to Cash Flow Ratio  
Debt to Equity Ratio  
Earnings per Share  
Dividend Yield  
Rate of Return on Shareholders' Equity

## Cash Flow

Paramount calculates its cash flow;

- net of all lease rentals of both producing and non-producing properties
- net of all general and administrative costs (the Company does not capitalize any G&A)
- net of all marketing costs which are expensed currently
- Company does not capitalize any interest expenses

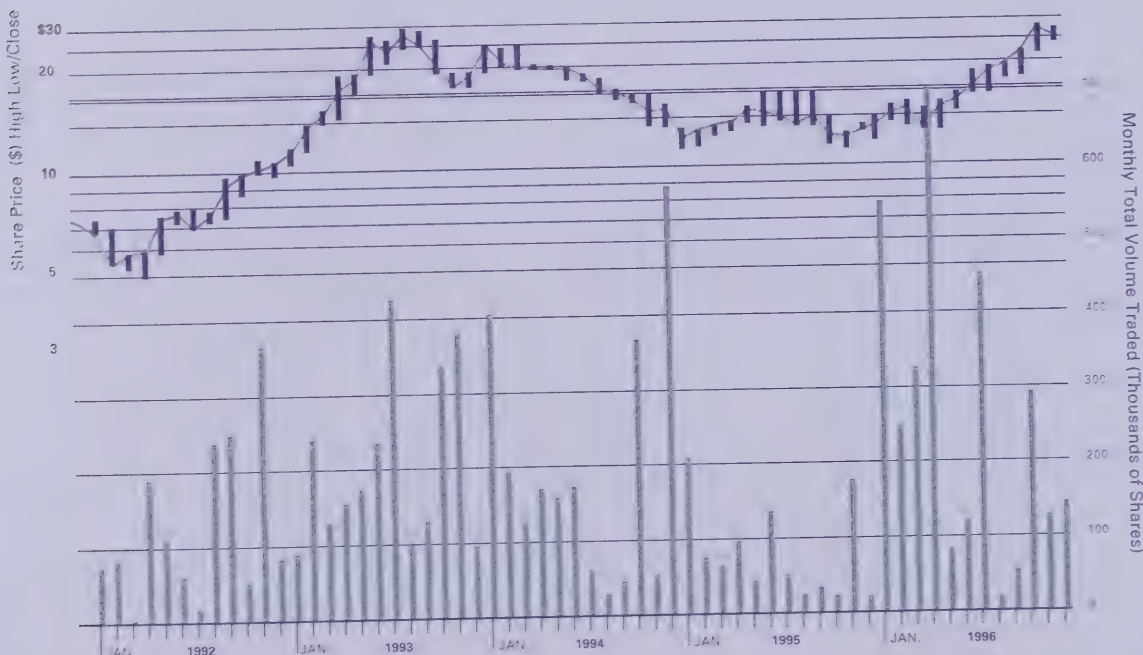
Cash Flow equates to "Funds Provided by Operations".

## Net Earnings

Paramount calculates its net earnings;

- net of dry hole costs
- net of geological and geophysical costs
- net of all lease rentals paid
- net of all G&A expenses
- net of all interest costs

## Five Year Share Price and Trading Volumes (1992 - 1996)



## Cash Flow Reconciliation

|                                     | December 31 |      |      |      |      |
|-------------------------------------|-------------|------|------|------|------|
| (\$ millions)                       | 1996        | 1995 | 1994 | 1993 | 1992 |
| Net revenue <sup>1</sup>            | 93.2        | 63.2 | 61.2 | 55.2 | 33.8 |
| Less                                |             |      |      |      |      |
| Operating costs                     | 16.2        | 14.6 | 13.7 | 9.6  | 6.0  |
| G&A <sup>2</sup>                    | 5.0         | 3.6  | 4.3  | 4.7  | 3.5  |
| Lease rentals                       | 1.9         | 1.9  | 1.9  | 1.3  | 1.1  |
| Interest expense                    | 6.4         | 7.2  | 5.9  | 3.3  | 3.8  |
| Current and Large Corporation Taxes | 0.6         | 0.4  | 0.2  | 1.2  | 0.2  |
| Cash flow                           | 63.1        | 35.3 | 35.2 | 35.1 | 19.3 |
| Cash flow as a % of revenue         | 68%         | 56%  | 58%  | 64%  | 57%  |

<sup>1</sup> Revenue net of royalty and ARTC

<sup>2</sup> General and Administrative, net of write off

## Cash Flow Per Year and Cash Flow/Share Per Year

| Fiscal Year | Cash Flow (\$ 000s) | Year End Trend <sup>1</sup> | Cash Flow Shares (000s) | Cash Flow per Share (\$) | Trend <sup>1</sup> |
|-------------|---------------------|-----------------------------|-------------------------|--------------------------|--------------------|
| 1992        | 19,275              | 100                         | 14,362                  | 1.36                     | 100                |
| 1993        | 35,076              | 182                         | 15,772                  | 2.37                     | 174                |
| 1994        | 35,213              | 183                         | 15,901                  | 2.23                     | 164                |
| 1995        | 35,313              | 183                         | 15,901                  | 2.22                     | 163                |
| 1996        | 63,107              | 327                         | 16,401                  | 3.95                     | 290                |

<sup>1</sup> Trend with base year 1992, with a nominal value of 100

## Share Price to Cash Flow Multiple

| Share Price as a Multiple of Cash Flow |                  |       |                     |                          |           |            |
|----------------------------------------|------------------|-------|---------------------|--------------------------|-----------|------------|
| Fiscal Year                            | Share Price (\$) |       | Cash Flow (\$ 000s) | Cash Flow per Share (\$) | Low Price | High Price |
|                                        | Low              | High  |                     |                          |           |            |
| 1992                                   | 5.00             | 11.00 | 19,275              | 1.36                     | 3.7x      | 8.1x       |
| 1993                                   | 10.50            | 26.38 | 35,076              | 2.37                     | 4.4x      | 11.1x      |
| 1994                                   | 12.50            | 23.50 | 35,213              | 2.23                     | 5.6x      | 10.5x      |
| 1995                                   | 11.50            | 16.00 | 35,313              | 2.22                     | 5.2x      | 7.2x       |
| 1996                                   | 13.00            | 27.00 | 63,107              | 3.95                     | 3.3x      | 6.8x       |

## Debt to Cash Flow Ratio

| Fiscal Year | Operating Debt (\$ 000s) | Cash Flow (\$ 000s) | Debt/Cash Flow Ratio | Trend <sup>1</sup> |
|-------------|--------------------------|---------------------|----------------------|--------------------|
| 1992        | 43,818                   | 19,275              | 2.3:1                | 100                |
| 1993        | 57,006                   | 35,076              | 1.6:1                | 130                |
| 1994        | 84,563                   | 35,213              | 2.4:1                | 193                |
| 1995        | 86,111                   | 35,313              | 2.4:1                | 197                |
| 1996        | 63,046                   | 63,107              | 1.0:1                | 144                |

<sup>1</sup> Trend with base year 1992, with a nominal value of 100

## Debt to Equity Ratio

| Fiscal Year | Operating Debt (\$ 000s) | Shareholders' Equity (\$ 000s) | Debt/Equity Ratio | Trend <sup>1</sup> |
|-------------|--------------------------|--------------------------------|-------------------|--------------------|
| 1992        | 43,818                   | 33,781                         | 1.29:1            | 100                |
| 1993        | 57,006                   | 73,684                         | 0.77:1            | 60                 |
| 1994        | 84,563                   | 84,395                         | 1.00:1            | 78                 |
| 1995        | 86,111                   | 88,427                         | 0.97:1            | 75                 |
| 1996        | 63,046                   | 120,734                        | 0.52:1            | 40                 |

<sup>1</sup> Trend with base year 1992, with a nominal value of 100

## Earnings Per Share

Paramount's earnings are net of dry hole costs, geological/geophysical costs and all lease rentals.

| Fiscal Year | Earnings (\$ 000s) | Year End Trend <sup>1</sup> | Shares (000s) | Earnings per Share (\$) | Trend <sup>1</sup> |
|-------------|--------------------|-----------------------------|---------------|-------------------------|--------------------|
| 1992        | 2,821              | 100                         | 14,362        | 0.20                    | 100                |
| 1993        | 12,982             | 460                         | 15,772        | 0.88                    | 440                |
| 1994        | 11,504             | 408                         | 15,901        | 0.73                    | 365                |
| 1995        | 5,622              | 199                         | 15,901        | 0.35                    | 175                |
| 1996        | 25,462             | 903                         | 16,401        | 1.59                    | 795                |

<sup>1</sup> Trend with base year 1992, with a nominal value of 100

## Dividend Yield

Paramount is one of the few oil and gas companies its size which declares a dividend. With the exception of 1987, a dividend has been paid every year since 1985.

| Fiscal Year | Dividend per Share (\$) | Share Price Low | Share Price High | Dividend Yield Low Price | Dividend Yield High Price |
|-------------|-------------------------|-----------------|------------------|--------------------------|---------------------------|
| 1992        | 0.10                    | 5.00            | 11.00            | 2.0%                     | 0.9%                      |
| 1993        | 0.10                    | 10.50           | 26.38            | 0.9%                     | 0.4%                      |
| 1994        | 0.10                    | 12.50           | 23.50            | 0.8%                     | 0.4%                      |
| 1995        | 0.10                    | 11.50           | 16.00            | 0.9%                     | 0.6%                      |
| 1996        | 0.10                    | 13.00           | 27.00            | 0.8%                     | 0.4%                      |

## Rate of Return on Shareholders' Equity

Paramount has earned an average weighted after-tax rate of return as computed on a book basis, based upon the weighted average shareholder's equity invested over the past five years of 16.6%, as follows:

| (\$ 000s)                             | 1996    | 1995   | 1994   | 1993   | 1992   |
|---------------------------------------|---------|--------|--------|--------|--------|
| Net earnings                          | 25,462  | 5,622  | 11,504 | 12,982 | 2,821  |
| Weighted average shareholder's equity | 104,600 | 86,400 | 79,000 | 53,700 | 29,000 |
| After-tax rate of return (%)          | 24.3    | 6.5    | 14.6   | 24.2   | 9.7    |

## Capital Structure

The following table outlines Paramount's capital structure since 1992.

|                            | 1996    | 1995    | 1994    | 1993    | 1992   |
|----------------------------|---------|---------|---------|---------|--------|
| (Dollar amounts in 000s)   | \$      | \$      | \$      | \$      | \$     |
| Long-term debt (operating) | 63,046  | 86,111  | 84,563  | 57,006  | 43,818 |
| Deferred income tax        | 43,799  | 30,941  | 32,984  | 23,740  | 17,939 |
| Deferred revenue and other | 9,552   | 8,501   | 1,109   | 956     | 740    |
| Shareholders' equity       | 120,734 | 88,427  | 84,395  | 73,684  | 33,782 |
|                            | 237,131 | 213,890 | 203,051 | 155,386 | 96,279 |



**Major producing Properties**

|                                    |       |       |
|------------------------------------|-------|-------|
| Working Interest Gas Only (MMcf/d) |       |       |
| Gas Plants                         | 1996  | 1995  |
| Legend                             | 11.8  | 12.9  |
| North Liege                        | 11.0  | 13.7  |
| Liege                              | 9.2   | 11.5  |
| South Liege                        | —     | 2.4   |
| East Liege                         | 1.3   | —     |
| Chip Lake                          | 5.2   | 7.4   |
| Chip West                          | 2.7   | 3.8   |
| Blanchett                          | 2.3   | 2.7   |
| Saleski I & II                     | 9.0   | 9.2   |
| Quigley                            | 6.5   | 7.1   |
| Kettle River                       | 15.6  | 16.7  |
| Chard                              | 4.8   | 5.5   |
| Leismer                            | 1.5   | 1.9   |
| Corner                             | 20.0  | 19.1  |
| Kaybob                             | 11.3  | 13.8  |
| Kaybob Non-op                      | 3.3   | —     |
| South Leismer                      | 3.8   | 2.0   |
| Other                              | 7.8   | 5.3   |
| Total                              | 127.1 | 135.0 |
| Crude Oil & Liquids (Bbl/d)        | 1517  | 807   |

**Net Land (thousands acres)**

|             |      |       |
|-------------|------|-------|
|             | 1996 | 1995  |
| Proved      | 532  | 626   |
| Undeveloped | 932  | 843   |
| Total       | 1464 | 1,469 |

**Net Capital Expenditures (\$ millions)**

|                              |         |         |
|------------------------------|---------|---------|
|                              | 1996    | 1995    |
| Drilling & seismic           | \$ 24.1 | \$ 23.9 |
| Crown land sales             | 9.5     | 9.0     |
| Property acquisition         | 11.2    | 0.5     |
| Acquisition of subsidiary    | 14.8    | —       |
| Plant, gathering & equipment | 30.6    | 15.5    |
|                              | 90.2    | 48.9    |
| Less proceeds of disposition | 27.1    | 1.3     |
| Net                          | 63.1    | 47.6    |

**Company Forecast 1997**

|                                       |                 |
|---------------------------------------|-----------------|
| Production                            |                 |
| Gas (MMcf/d)/(\$1.80/Mcf)             | 150 - 160       |
| Oil/Liquids (bbl/d)(U.S. \$20.00 Bbl) | 2,400 - 2,600   |
| Cash flow (\$MM)                      | \$70 - \$80     |
| CFPS (\$/share)                       | \$4.25 - \$5.00 |
| Capital budget (\$MM)                 | \$70            |

**Directors and Officers**

**C. (Clay) H. Riddell**  
Director, Chairman & President

**W.R. (Russ) Duncan**  
Director, V.P., Operations

**G.B. (Barry) Padley**  
Director, Chief Financial Officer

**J. (Jim) F. Jungé**  
Director

**W. (Wally) B. MacInnes**  
Director

**V. (Vi) S.A. Riddell**  
Director

**J. (John) B. Roy**  
Director

**A. (Alistair) S. Thomson**  
Director

**B. (Bernie) M. Wylie**  
Director

**Paramount Resources Ltd.**

4000 First Canadian Centre  
350 Seventh Avenue S.W.  
Calgary, Alberta T2P 3W5  
Telephone: (403) 266-2047  
Facsimile: (403) 262-7994

**Historical Summary**

|                                             | 1996    | 1995    | 1994    | 1993    | 1992    |
|---------------------------------------------|---------|---------|---------|---------|---------|
| Gas production (Mcf/d)                      | 127,100 | 135,000 | 116,100 | 98,728  | 87,220  |
| Crude Oil & Liquids production (Bbl/d)      | 1,517   | 807     | 313     | 161     | 61      |
| Gas proven reserves (Bcf)                   | 345.8   | 345.3   | 333.6   | 323.2   | 298.2   |
| Crude Oil & Liquids proven reserves (Mbbls) | 5,574   | 3,095   | 1,078   | 379     | 199     |
| Net Earnings (\$MM)                         | \$ 25.5 | \$ 5.6  | \$ 11.5 | \$ 13.0 | \$ 2.8  |
| Cash flow (\$MM)                            | \$ 63.1 | \$ 35.3 | \$ 35.2 | \$ 35.1 | \$ 19.3 |
| CFPS (\$/share)                             | \$ 3.95 | \$ 2.22 | \$ 2.23 | \$ 2.37 | \$ 1.36 |



#### *Officers*

*C. H. Riddell*  
President

*W. R. Duncan*  
Vice President, Operations

*G. B. Padley*  
Chief Financial Officer  
Corporate Secretary

*L. A. Friesen*  
Assistant Corporate Secretary

#### *Directors*

*C. H. Riddell<sup>(1)</sup>*  
Chairman of the Board  
President  
Paramount Resources Ltd.

*W. R. Duncan*  
Vice President, Operations  
Paramount Resources Ltd.

*J. F. Jungé*  
Chairman of the Board  
The Pitcairn Properties Inc.  
Jenkintown, Pennsylvania

*W. B. MacInnes, Q.C.<sup>(1) (2)</sup>*  
Barrister & Solicitor  
Partner, Ballem MacInnes  
Calgary, Alberta

*G. B. Padley<sup>(1)</sup>*  
Chief Financial Officer  
Corporate Secretary  
Paramount Resources Ltd.

*V. S. A. Riddell*  
Business Executive  
Calgary, Alberta

*J. B. Roy<sup>(1) (2) (3)</sup>*  
Business Executive  
Calgary, Alberta

*A. S. Thomson*  
President  
Touche, Thomson & Yeoman  
Investment Consultants Ltd.  
Vancouver, British Columbia

*B. M. Wylie<sup>(2) (3)</sup>*  
Business Executive  
Calgary, Alberta

#### *Head Office*

4000 First Canadian Centre  
350 Seventh Avenue S. W.  
Calgary, Alberta  
Canada T2P 3W5  
Telephone: (403) 266-2047  
Facsimile: (403) 262-7994

#### *Consulting Engineers*

*McDaniel & Associates*  
*Consultants Ltd.*  
Calgary, Alberta

#### *Auditors*

*Ernst & Young*  
Calgary, Alberta

#### *Bankers*

*Bank of Montreal*  
Main Branch  
Calgary, Alberta

*Canadian Imperial Bank*  
*of Commerce*  
Main Branch  
Calgary, Alberta

#### *Solicitors*

*Ballem MacInnes*  
Calgary, Alberta

#### *Registrar and* *Transfer Agent*

*Montreal Trust Company*  
*of Canada*  
Calgary, Alberta  
Toronto, Ontario

#### *Annual and Special Meeting*

Shareholders are cordially invited to attend the Annual and Special Meeting to be held May 15, 1997, at 3:00 p.m. in the McMurray Room at the Calgary Petroleum Club, 319 Fifth Avenue S. W., Calgary, Alberta.

*Stock Exchange Listing*  
*The Toronto Stock Exchange*  
(*'POU'*)

Paramount's shares are listed for trading on The Toronto Stock Exchange under the symbol 'POU'.

At December 31, 1996, there were 16,401,200 common shares issued and outstanding.

<sup>(1)</sup> Member of Audit Committee

<sup>(2)</sup> Member of Environmental Committee

<sup>(3)</sup> Member of Compensation Committee





Paramount Resources Ltd.

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